Gen III Oil Corporation

Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2018
(Unaudited)
(Expressed in Canadian dollars)

Gen III Oil Corporation
Condensed Consolidated Interim Financial Statements
(Unaudited)
(Expressed in Canadian dollars)

Gen III Oil Corporation
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	September 30, 2018	December 31, 2017
	$	$
ASSETS		
Current		
Cash and cash equivalents	1,191,208	6,284,891
Accounts receivable	90,777	100,428
Prepaid expenses	180,227	183,062
	1,462,212	6,568,381
Property	8,328	8,328
Investments	30,621	57,415
Total assets	**1,501,161**	**6,634,124**
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 3)	1,350,869	900,490
Accrued tax provision	159,000	161,000
	1,509,869	1,061,490
Non-current		
Deferred rent liability (note 5)	101,224	-
Total liabilities	1,611,093	1,061,490
Shareholders' (Deficit) Equity		
Share capital (note 4)	75,446,351	74,796,282
Contributed surplus	8,467,520	8,181,029
Accumulated deficit	(84,054,424)	(77,462,092)
Accumulated other comprehensive income		
Unrealized gain on investments	30,621	57,415
Total shareholders' (deficit) equity	(109,932)	5,572,634
Total liabilities and shareholders' equity	**1,501,161**	**6,634,124**

Nature of operations (note 1)
Commitments (note 5)
Subsequent events (note 8)

Approved on behalf of the Board of Directors:

"Greg Clarkes"   *"Larry Van Hatten"*

Greg Clarkes, Director   Larry Van Hatten, Director

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

Gen III Oil Corporation
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Expense				
Exploration	-	-	-	24,007
General and administration	257,217	83,696	600,483	269,443
Investor relations	9,964	33,024	234,535	100,674
Professional fees	492,584	1,188,653	2,914,954	2,024,054
Salaries and benefits (note 3)	515,402	215,110	1,352,337	760,522
Share-based payments (note 4)	80,948	55,855	286,491	557,342
Site rent (note 5)	337,959	-	901,224	150,000
Supplies	9,402	-	147,568	-
Travel and accommodation	59,291	26,523	235,727	101,048
	1,762,767	1,602,861	6,673,319	3,987,090
Other (income) expense				
Interest income (note 3)	(7,877)	(4,949)	(62,931)	(26,955)
Foreign exchange loss (gain)	1,575	213	(2,182)	329,949
Impairment loss (note 3)	-	-	-	15,481
(Gain) loss on shares for debt settlement (note 4)	-	-	(15,874)	630,167
Gain on disposal of subsidiary (note 7)	-	-	-	(747,836)
	(6,302)	(4,736)	(80,987)	200,806
Net loss for the period	1,756,465	1,598,125	6,592,332	4,187,896
Other comprehensive (income) loss				
Other comprehensive (income) loss to be reclassified to profit or loss in subsequent periods:				
Unrealized loss (gain) on investments	-	26,794	26,794	(19,138)
Reallocation of exchange difference on translating foreign operations	-	-	-	(352,384)
	-	26,794	26,794	(371,522)
Total comprehensive loss for the period	1,756,465	1,624,919	6,619,126	3,816,374
Loss per share – basic and diluted	0.03	0.03	0.10	0.09
Weighted average number of shares outstanding - basic and diluted	63,905,006	48,944,963	63,634,064	44,665,376

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

Gen III Oil Corporation
Condensed Consolidated Interim Statements of Changes in (Deficit) Equity
(Unaudited)
(Expressed in Canadian dollars)

				Accumulated other comprehensive income (loss)		
	Share capital	**Contributed surplus**	**Accumulated deficit**	**Cumulative translation adjustments**	**Unrealized gain (loss) on investments**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Balance as at December 31, 2016	64,041,965	7,374,187	(72,139,561)	(352,384)	30,621	(1,045,172)
Issuance of share capital (note 4)	11,073,734	-	-	-	-	11,073,734
Share issuance costs (note 4)	(1,264,417)	194,943	-	-	-	(1,069,474)
Share-based payments (note 4)	-	557,342	-	-	-	557,342
Loss for the period	-	-	(4,187,896)	-	-	(4,187,896)
Other comprehensive income	-	-	-	352,384	19,138	371,522
Balance as at September 30, 2017	73,851,282	8,126,472	(76,327,457)	-	49,759	5,700,056
Issuance of share capital (note 4)	945,000	-	-	-	-	945,000
Share issuance costs (note 4)	-	-	-	-	-	-
Share-based payments (note 4)	-	54,557	-	-	-	54,557
Loss for the period	-	-	(1,134,635)	-	-	(1,134,635)
Other comprehensive income	-	-	-	-	7,656	7,656
Balance as at December 31, 2017	74,796,282	8,181,029	(77,462,092)	-	57,415	5,572,634
Issuance of share capital (note 4)	650,069	-	-	-	-	650,069
Share-based payments (note 4)	-	286,491	-	-	-	286,491
Loss for the period	-	-	(6,592,332)	-	-	(6,592,332)
Other comprehensive loss	-	-	-	-	(26,794)	(26,794)
Balance as at September 30, 2018	75,446,351	8,467,520	(84,054,424)	-	30,621	(109,932)

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

Gen III Oil Corporation
Condensed Consolidated Interim Statements of Cash Flows
For the nine months ended September 30, 2018 and 2017
(Unaudited)
(Expressed in Canadian dollars)

	2018	2017
	$	$
Operating activities		
Net loss for the period	(6,592,332)	(4,187,896)
Adjustments for items not involving cash		
Deferred rent liability (note 5)	101,224	-
Share-based payments (note 4)	286,491	557,342
Accrued interest income	(1,936)	(17,958)
Foreign exchange loss	-	328,715
Impairment loss (note 3)	-	15,481
(Gain) loss on shares for debt settlement (note 4)	(25,929)	630,167
Gain on disposal of subsidiary (note 7)	-	(747,836)
Effect of foreign exchange on cash	-	23,669
	(6,232,482)	(3,398,316)
Net change in non-cash working capital		
Accounts receivable	11,587	(50,382)
Prepaid expenses	2,835	(824)
Accounts payable and accrued liabilities	571,377	711,505
Accrued tax provision	(2,000)	(77,468)
Net cash flows used in operating activities	(5,648,683)	(2,815,485)
Financing activities		
Issuance of share capital (note 4)	555,000	9,785,700
Share issuance costs (note 4)	-	(757,183)
Net cash flows from financing activities	555,000	9,028,517
Investing activities		
Cash disposed in sale of subsidiary (note 7)	-	(598)
Net cash used in investing activities	-	(598)
(Decrease) increase in cash and cash equivalents during the period	(5,093,683)	6,212,434
Cash and cash equivalents, beginning of the period	6,284,891	442,663
Cash and cash equivalents, end of the period	1,191,208	6,655,097

Supplemental cash flow information (notes 3 and 6)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Gen III Oil Corporation (the "Company" or "Gen III Oil") is incorporated under the laws of British Columbia and is extra provincially registered in Alberta.

On January 15, 2017, VeroLube Inc. ("VeroLube") assigned the patents for the ReGen™ technology to the Company. The Company currently holds five (5) ReGen™ patents that have been issued in North America and two (2) other ReGen™ patents that have been issued in India and Singapore. The Company also holds nine (9) other ReGen™ patent applications world-wide that are pending. These ReGen™ patents provide protection over the ReGen™ technology. The Company's patented ReGen™ technology process combines refining technologies into a process that is able to extract a higher quantity of high quality base lubricating oils than traditional re-refineries.

On March 31, 2017, the Company sold its wholly owned subsidiary, NMC Mining Corp, which indirectly held the Company's mineral interests in Papua New Guinea.

On May 11, 2017, the Company changed its name to Gen III Oil Corporation and on October 17, 2017, the TSX Venture Exchange approved the Company's change of business to become an industrial oil company.

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. At September 30, 2018, the Company had a working capital deficit of $47,657, had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the nine months ended September 30, 2018, the Company reported a comprehensive loss of $6,619,126 and as at September 30, 2018, had an accumulated deficit of $84,054,424. The Company has not generated revenues from operations. The Company is dependent on equity financings to fund its operations. Management of the Company believes that the current level of funds is not sufficient to pay for expected cash expenditures over the next 12 months. The recoverability of the underlying value of the Company's assets is entirely dependent on the Company's ability to obtain the necessary financing to complete development of the ReGen™ technology, and future profitable production. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. The Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary should the going concern assumption be inappropriate, and such adjustments could be material.

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2. BASIS OF PREPARATION

(a) Statement of Compliance

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") effective for the Company's reporting period ending December 31, 2018. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's consolidated financial statements for the

2. BASIS OF PREPARATION (continued)

year ended December 31, 2017, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. The accounting policies applied are the same as those applied in the Company's most recent annual financial statements which are filed under the Company's profile on SEDAR at www.sedar.com. The results for interim periods are not necessarily indicative of results for the entire year. The preparation of these unaudited condensed consolidated interim financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of expenses during the period. As a result, actual amounts may differ from those estimates.

These condensed consolidated interim financial statements for the three and nine months ended September 30, 2018 were approved and authorized for issue by the Board of Directors on November 28, 2018.

(b) Principles of Consolidation

The condensed consolidated interim financial statements include the financial statements of the Company, and its wholly owned subsidiary, Gen III Oil (Alberta) Inc., a corporation incorporated on November 1, 2017 under the provincial laws of Alberta, and NMC Mining Corp, a corporation existing under the federal laws of Canada, which in turn wholly owns NMC Mining (Barbados) Corp. and Normanby Mining Corp., corporations existing under the laws of Barbados, Normanby Mining PNG Limited ("Normanby PNG"), a corporation existing under the laws of Papua New Guinea (collectively, the "Group") up to March 31, 2017. The Company sold NMC Mining Corp and its subsidiaries on March 31, 2017.

(c) New Accounting Pronouncements

The following are standards that the Company adopted on January 1, 2018 and the impact they have on the Company's financial position and results of operations:

IFRS 15, Revenue from Contracts with Customers – On May 28, 2014, the IASB issued IFRS 15 that provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company has not generated any revenues but expects to generate revenues after its Bowden plant becomes operational in the second half of 2019. The adoption of this standard did not have any impact on the Company's financial position as at September 30, 2018 and results of operations for the three and nine months ended September 30, 2018. The Company will account for revenues under this standard when revenues are generated.

IFRS 9, Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of this standard on January 1, 2018 did not have any material impact on its financial position and results of operations.

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

The following are standards not yet in effect and the impact they will have on the Company's financial position and results of operations:

IFRS 16, Leases - On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses). The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted. The Company has office leases and has entered into a plant lease for the Bowden plant in January 2018. Upon adoption of this standard, the Company will account for such leases on its balance sheet as right-of-use assets and lease liabilities with corresponding interest and amortization expense in its results of operations.

3. RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at the exchange amount established and agreed to by the related parties. Key Management personnel includes the Chief Executive Officer, the President, the Executive Vice President, the Chief Operating Officer, the Executive Vice President Corporate Finance, the Chief Financial Officer and the Directors.

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Salaries to Key Management personnel	246,750	168,750	981,945	443,750
Fees for consulting services to a company controlled by the Executive Vice President	15,000	45,000	103,500	122,500
Fees for consulting services to a company controlled by the former Chief Operating Officer	-	21,375	10,688	28,500
Fees for consulting services to a company controlled by Chief Financial Officer	-	-	-	20,462
Professional fees to company controlled by a Director	12,500	16,500	45,500	86,500
Share-based payments to Key Management personnel	74,862	46,054	240,343	521,106
Total	349,112	297,679	1,381,976	1,222,818

Included in salaries to Key Management personnel for the three and nine months ended September 30, 2018, is $194,000 in bonuses paid (2017 - $nil) for achieving financing milestones.

Included in accounts payable and accrued liabilities as at September 30, 2018 is $123,750 (December 31, 2017 - $165,000) of accrued directors' fees, $12,041 (December 31, 2017 - $11,062) of professional fees payable to officers and directors and $42,649 (December 31, 2017 - $13,053) of reimbursements payable to officers and directors.

(Expressed in Canadian dollars)

3. RELATED PARTY TRANSACTIONS (continued)

On February 9, 2017, the Chief Executive Officer and a director purchased 1,300,000 and 250,000 units, respectively of the Company's second tranche of a non-brokered private placement (the "Offering"). The Offering consisted of the issuance of a total of 6,450,000 units (the "Units") at a price of $0.10 per Unit for gross proceeds of $645,000. Each Unit consisted of one common share and one-half of one warrant ("Warrant") with each whole Warrant entitling the holder to acquire one common share at a price of $0.30 per share until February 6, 2018. All of the Warrants were exercised by the Chief Executive Officer and director by the expiry date and the Company received gross proceeds of $232,500.

On April 19, 2017, the Company settled $318,526 of directors and officers compensation in exchange for 1,873,679 common shares at a deemed price of $0.17 per share (see note 4 (b)).

On May 1, 2018, the Company settled $120,998 in debt to directors of the Company in exchange for 172,852 common shares at a deemed price of $0.70 per share. The fair value of the shares was recorded as $0.55 per share, which was the May 1, 2018 closing price of the shares on the TSX Venture Exchange. The difference between $0.55 and $0.70 less legal fees, $15,874, was recognized as gain on shares for debt settlement. The Company issued shares to the following related parties in settlement of their debt:

Debt Amount	Number of Shares	Nature of Debt
$110,680	158,114	2017 directors' fees less statutory deductions
$ 10,318	14,738	2017 committee fees less statutory deductions
$120,998	172,852	**Total**

In addition to the related party transactions noted above, the Company reimbursed all these related parties for out-of-pocket direct costs incurred on behalf of the Company. Such costs include travel, postage, courier charges, printing and telephone charges.

The following were the transactions with VeroLube:

During 2014, the Company entered into agreements with VeroLube to loan funds to VeroLube Bowden Plant Inc. The Company's Chief Executive Officer served as director of VeroLube Inc. until January 23, 2017. These loans have been impaired and the following provides information on the outstanding amounts of the loan.

	$
Balance as at December 31, 2014	471,829
Fair value of funds advanced	112,613
Accretion	162,564
Impairment	(747,006)
Balance as at December 31, 2015	-
Accretion	164,375
Impairment	(164,375)
Balance as at December 31, 2016	-
Accretion	15,481
Impairment	(15,481)
Balance as at December 31, 2017	-

(Expressed in Canadian dollars)

3. RELATED PARTY TRANSACTIONS (continued)

As VeroLube did not repay the loans, the Company fully exercised its rights on February 3, 2017 under the loan agreement and became the owners of the ReGen^{TM} technology.

4. SHARE CAPITAL

(a) Authorized: Unlimited common shares without par value
Unlimited number of preferred shares without par value

(b) Issued and outstanding:

	Number of common shares	$
December 31, 2016	31,783,657	64,041,965
Private placements	23,469,572	9,485,700
Debt settlement (note 3)	2,032,797	975,743
Exercise of warrants	4,150,000	1,245,000
Broker commissions and fees settled by issuance of shares	446,128	312,291
Share issuance costs	-	(1,264,417)
December 31, 2017	61,882,154	74,796,282
Exercise of warrants (note 3)	1,850,000	555,000
Debt settlement (note 3)	172,852	95,069
September 30, 2018	63,905,006	75,446,351

On December 13, 2016, the Company closed the first tranche of a non-brokered private placement that was announced on November 29, 2016 (the "Offering") and subsequently amended to raise up to $1.2 million. The closing consisted of the issuance of a total of 5,550,000 Units at a price of $0.10 per Unit for gross proceeds of $555,000. Each Unit consists of one common share and one-half of one Warrant with each whole Warrant entitling the holder to acquire one common share at a price of $0.30 per share until December 12, 2017. In the event the common shares of the Company have a closing trading price of $0.30 or higher for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the Warrants to a date that is 30 days from the date the Company provides notice to the holders. In connection with the closing of the first tranche of the Offering, the Company paid an aggregate amount of $23,600 in cash finder's fees to eligible arm's length finders and incurred $29,668 in legal fees. All of these Warrants were exercised at $0.30 per share during the fourth quarter of 2017 and the Company received gross proceeds of $832,500.

On February 9, 2017, the Company closed the final tranche of the Offering consisting of 6,450,000 Units at a price of $0.10 per Unit for gross proceeds of $645,000. The 3,225,000 Warrants issued for this final tranche expire on February 6, 2018. In connection with the closing of the final tranche of the Offering, the Company paid an aggregate amount of $36,500 in cash finder's fees to eligible arm's length finders and incurred $4,629 in legal fees. During 2017, 1,375,000 Warrants were exercised at $0.30 per share and the Company received gross proceeds of $412,500. The remaining 1,850,000 warrants issued with the Offering were all exercised by the expiry date of February 6, 2018 and the Company received gross proceeds of $555,000.

On March 13, 2017, the Company closed a non-brokered private placement of common shares at a price of $0.30 per share. Under the private placement, the Company issued 7,682,500 shares for gross proceeds of $2,304,750. In connection with the closing of the private placement, the Company paid an aggregate amount of $184,380 in cash finder's fees to eligible arm's length finders and incurred $12,816 in legal fees.

4. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued):

On April 19, 2017, the Company settled $345,576 in debt in exchange for 2,032,797 common shares at a deemed price of $0.17 per share. The fair value of the shares was recorded as $0.48 per share, which was the April 19, 2017 closing price of the shares on the TSX Venture Exchange. The difference between $0.48 and $0.17, $630,167, was recognized as loss on shares for debt settlement.

On September 27, 2017, the Company issued an aggregate of 9,337,072 units at a price of $0.70 per unit for aggregate gross proceeds of $ 6,535,950. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at any time until September 27, 2019 at an exercise price of $1.00 per common share. In connection with the offering, the Company entered into an agency agreement with the agent dated effective September 27, 2017. At closing, the Company paid to the agent an aggregate of $397,226 cash, representing a portion of the agent's commission and all of the agent's related expenses (including legal fees). The agent elected to receive the agent's corporate finance fee and the balance of the agent's commission in units, and at closing the Company issued to the agent 446,128 units at a price of $0.70 per unit. In addition, the agent also subscribed for 322,211 units at a price of $0.70 per unit under the offering. The Company also issued to the agent 653,595 broker warrants of the Company. Each broker warrant entitles the agent to purchase one unit at any time until September 27, 2019 at a price of $0.70 per unit and each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the agent to purchase one common share at an exercise price of $1.00 at any time until September 27, 2019.

On May 1, 2018, the Company settled $120,998 in debt in exchange for 172,852 common shares at a deemed price of $0.70 per share. The fair value of the shares was recorded as $0.55 per share, which was the May 1, 2018 closing price of the shares on the TSX Venture Exchange. The difference between $0.55 and $0.70 less legal fees, $15,874, was recognized as gain on shares for debt settlement.

(c) Stock Options and Share-Based Payments

Stock options granted during the nine months ended September 30, 2018 and the year ended December 31, 2017 to the Company's officers, directors and consultants were as follows:

(1) On February 8, 2017, 3,075,000 options were granted at an exercise price of $0.17, expiring on February 8, 2019. These stock options were fully vested on the date of grant.

(2) On April 1, 2017, 300,000 stock options were granted at an exercise price of $0.46, expiring on April 1, 2019. On April 30, 2017, 200,000 of the unvested stock options were forfeited due to the termination of the officer's employment. The remaining 100,000 vested options were not exercised and expired on July 29, 2017.

(3) On May 17, 2017, the Company granted an aggregate of 180,000 stock options at an exercise price of $0.72, expiring on May 17, 2019. 40,000 options vested on the date of grant. 140,000 options vested on November 1, 2017. 50,000 options were forfeited upon resignations of employees. 25,000 vested options expired unexercised on February 22, 2018 due to the termination of an employee.

4. SHARE CAPITAL (continued)

(c) Stock Options and Share-Based Payments (continued)

(4) On June 1, 2017, the Company granted an aggregate of 300,000 stock options at an exercise price of $0.72, expiring on June 1, 2019. On January 16, 2018, 100,000 of the unvested stock options were forfeited due to the termination of the officer's employment. The remaining 200,000 vested options were not exercised and expired on April 18, 2018.

(5) On September 20, 2017, the Company granted 500,000 stock options at an exercise price of $0.70, expiring on September 20, 2019. The options were to vest in two equal tranches on March 20, 2018 and September 20, 2018. On April 5, 2018, 250,000 of the unvested stock options were forfeited due to the termination of the officer's employment. The remaining 250,000 vested options were not exercised and expired on July 4, 2018.

(6) On October 3, 2017, the Company granted 50,000 stock options to two employees at an exercise price of $0.74, expiring on October 3, 2019. The options were to vest in two equal tranches on April 3, 2018 and October 3, 2018. Of these, 40,000 unvested options were forfeited upon resignation of an employee and a consultant.

(7) On January 5, 2018, the Company granted 600,000 stock options at an exercise price of $0.68, expiring on January 5, 2020. The options will vest in two equal tranches on May 31, 2018 and upon commissioning of the Bowden plant.

(8) On March 13, 2018, the Company granted 1,200,000 stock options at an exercise price of $0.70, expiring on March 13, 2021. The options will vest on the earlier of: (a) a Change of Control of the Company; or (b) the "Commercial Operations Date" (as such term is defined in the Purchase and Sale Agreement between Gen III and Elbow River Marketing Ltd. dated September 12, 2017) of the Company's re-refinery plant being constructed in Bowden, Alberta. Of these, 37,500 unvested options were forfeited due to the termination of an employee.

(9) On March 26, 2018, the Company granted 500,000 stock options to an investor relations firm at an exercise price of $0.61, expiring on March 26, 2020. The options were to vest quarterly in equal installments beginning on June 26, 2018. Due to the cancellation of services with the investor relations firm, 375,000 unvested stock options were forfeited. The remaining 125,000 vested options were not exercised and expired on September 24, 2018.

(10) On May 6, 2018, the Company granted 500,000 stock options to an employee to purchase shares at an exercise price of $0.70 per share. The options are valid for a period of two years. The options will vest in two equal tranches, one-half on December 31, 2018, and one-half upon commissioning of the Company's Bowden facility.

(11) On September 1, 2018, the Company granted 300,000 stock options to a consultant at an exercise price of $0.70 per share, expiring on September 1, 2020. 150,000 options will vest on November 30, 2018. 75,000 options will vest upon the consultant securing letters of intent with used motor oil ("UMO") suppliers amounting to 25,000,000 US Gallons of UMO in the aggregate. 75,000 options will vest upon commencement and commissioning of the Bowden facility or facility at another location should the decision be made to build elsewhere.

(Expressed in Canadian dollars)

4. SHARE CAPITAL (continued)

(c) Stock Options and Share-Based Payments (continued)

The aggregate fair value of the stock options granted during the nine months ended September 30, 2018 was $756,087 (2017 - $591,769. The fair value of the stock options was estimated at the grant date using the Black-Scholes Option Pricing Model. The inputs for the Black-Scholes Option Pricing Model are as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
Inputs	**2018**	**2017**	**2018**	**2017**
Risk free interest rate	2.04%	1.56%	1.77% - 2.04%	0.65% - 1.56%
Expected dividend yield	nil	nil	nil	nil
Expected annual volatility	57%	66%	57% - 80%	33% - 73%
Expected life	1.5 years	1 year	1.5 years – 3 years	3 months – 1 year
Forfeiture rate	0%	20%	0% - 22%	10% - 20%

A summary of the status of the Company's stock options as at September 30, 2018 and changes during the period are as follows:

	Number of options	**Weighted average exercise price $**
Outstanding and fully vested – December 31, 2016	520,000	1.70
Options granted	4,405,000	0.32
Options forfeited	(250,000)	0.51
Options expired	(620,000)	1.54
Outstanding – December 31, 2017	4,055,000	0.30
Options granted	3,100,000	0.68
Options forfeited	(802,500)	0.66
Options expired	(600,000)	0.69
Outstanding – September 30, 2018	5,752,500	0.42

(d) Warrants

Of the 6,000,000 warrants issued in connection with the Offering, 4,150,000 were exercised as at December 31, 2017 and the remaining 1,850,000 were exercised as at March 31, 2018.

As at September 30, 2018 and December 31, 2017, for the warrants issued in connection with the private placement on September 30, 2017, there were 4,891,598 warrants outstanding. Each warrant entitles the holder to purchase one common share at any time until September 27, 2019 at an exercise price of $1.00 per common share. The Company used the residual value method to allocate all of the value received to shares and therefore, no value was allocated to the warrants.

4. SHARE CAPITAL (continued)

(d) Warrants (continued)

A summary of the status of the Company's warrants as at September 30, 2018 and changes during the period are as follows:

	Number of Warrants outstanding	Weighted average exercise price $
Outstanding – December 31, 2016	2,775,000	0.30
Warrants granted	8,116,598	0.72
Warrants exercised	(4,150,000)	0.30
Outstanding – December 31, 2017	6,741,598	0.81
Warrants exercised	(1,850,000)	0.30
Outstanding – September 30, 2018	4,891,598	1.00

As at September 30, 2018 and December 31, 2017, for the broker warrants issued in connection with the private placement on September 30, 2017, there were 653,595 broker warrants outstanding. Each broker warrant entitles the holder to purchase one unit at any time until September 27, 2019 at a price of $0.70 per unit and each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $1.00 at any time until September 27, 2019.

(e) Reserves

Contributed surplus
Share-based payments and warrant values, if any, are recognized in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount in contributed surplus is reclassified to share capital, adjusted for any consideration paid.

Cumulative translation adjustments
The exchange difference on translating the foreign operation from its functional currency (PNG Kina) into the reporting currency (Canadian dollar) is recognized in cumulative translation adjustment. When the subsidiary was sold on March 31, 2017, the foreign exchange loss was reallocated from other comprehensive loss to other expense.

Unrealized gain (loss) on investments classified as fair value changes through other comprehensive income
Financial assets classified as fair value changes through other comprehensive income are measured at fair value with unrealized gains and losses being recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary.

(Expressed in Canadian dollars)

5. COMMITMENTS

The Company's lease commitments as at September 30, 2018 are shown in the table below.

	2018 $	2019 $	2020 $	2021 $	2022 $
Total office lease commitment	104,564	344,046	90,061	-	-
Amount recovered from sublease	(25,129)	(100,515)	(50,258)	-	-
Total office lease commitment, net of recovery	79,435	243,531	39,803	-	-
Parkland lease	300,000	1,200,000	1,200,000	1,200,000	1,200,000
Total lease commitment	379,435	1,443,531	1,239,803	1,200,000	1,200,000

The Parkland lease agreement commenced on February 1, 2018 and is for an initial term of 20 years. Annual basic rent is $1,200,000 with an increase of the greater of 2% or the Alberta Consumer Price Index on each fifth anniversary of the lease term. For accounting purposes, the aggregate amount of the rent payments for the 20-year lease term is recognized as rent expense on a straight-line basis over 20 years. As at September 30, 2018, this establishes a deferred liability of $101,224, which will be drawn down in the later years of the lease when the cash payments exceed the rent expense recorded for accounting purposes. The Company intends to construct its new motor oil re-refinery on the existing process pads at Parkland's Bowden facility. The lease agreement requires the Company to decommission the existing Bowden plant facility before construction of the new oil re-refinery plant. The Company estimates that the cost of this decommission work to be approximately $3.5 million. In addition, the lease agreement requires the Company to provide a security deposit of $2 million before commencement of any work on the Bowden facility.

On September 12, 2017, the Company entered into a purchase and sale agreement ("PSA") with Elbow River Marketing Ltd. ("Elbow River") for the majority of the Company's finished products from its first rerefinery being constructed in Bowden, Alberta. Under the terms of the PSA, Elbow River will purchase the majority of the Company's Bowden plant production and provide rail and truck transportation from the Bowden plant to Elbow River's customers. The agreement is for an initial term of five years from commencement of commercial operations as defined in the agreement. Under the agreement, the Company has undertaken to reimburse reasonable set up costs incurred by Elbow River should the Company fail to deliver product by the projected commercial operations date that had been advised to Elbow River. Due to the nature and timing of these costs, it is not practicable to estimate such reimbursable costs at this time.

The Company entered into agreements with engineering consulting firms to provide engineering consulting services. The charges from these engineering consulting firms are invoiced as work performed by the engineering consultants is completed and are not fixed amount contracts. One of the agreements is subject to a bonus based on the amount by which the total cost of plant construction is reduced.

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.

(Expressed in Canadian dollars)

6. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	$	$	$	$
Operating activities				
Interest income received from banks	9,542	3,999	49,382	9,236
Financing activities				
Broker commissions and fees settled by issuance of shares	-	312,291		312,291

7. GAIN ON DISPOSAL OF SUBSIDIARY

On March 31, 2017, the Company sold its wholly owned subsidiary, NMC Mining Corp for gross proceeds of one dollar plus future recoveries that are contingent upon certain future events occurring. NMC Mining Corp indirectly held the Company's assets in Papua New Guinea. At the time of the sale, NMC Mining Corp had net liabilities of $747,835 and as a result, the Company recorded a gain of $747,836.

8. SUBSEQUENT EVENTS

(a) On October 31, 2018, the Company announced a non-brokered private placement at $0.40 per unit for gross proceeds of up to $3,000,000 (the "Offering"). Each unit consists of one common share and one-half (1/2) of one common share purchase warrant. Each whole warrant will be exercisable at a price of $0.70 per share for a period of one year from closing, subject to acceleration if the common shares trade at or greater than $1.00 per share for a period of five (5) consecutive trading days after the date that is four months from closing. On November 16, 2018, the Company closed the first tranche of this private placement for total gross proceeds of $1,506,700. The Company paid finders' fees consisting of cash fees in the aggregate of $47,100. All securities issued under the first tranche are subject to a four-month hold period, expiring on May 17, 2019. Members of the Company's board of directors purchased an aggregate of 1,275,000 units.

(b) On November 7, 2018 the Company announced that it has received a term sheet from Export Development Canada ("EDC"), a financial Crown corporation, for a term loan for up to $72 million (the "Senior Credit Facility") to finance up to 50% of a base oil re-refinery in Bowden, Alberta (the "Project"). Project capex is currently estimated at $119 million including appropriate industry contingencies. The required equity is to be fully contributed prior to the first disbursement of the Senior Credit Facility. To date, the Company has contributed approximately $7 million to the Project. The borrower of the Senior Credit Facility will be the Company's wholly-owned subsidiary, Gen III Oil (Alberta) Inc. ("Gen III Alberta") with the Company guaranteeing the loan. No securities of the Company, or Gen III Alberta, are contemplated to be issued in connection with the Senior Credit Facility. The Senior Credit Facility may only be used to fund costs associated with the design, engineering, procurement, development, construction, commissioning and operational ramp-up of the Project, including, funding of a debt service reserve account, cost overrun account, interest payments, lender fees and expenses, professional fees and expenses, insurance premia, taxes, the cost of obtaining permits and other agreed upon costs and expenses incurred in connection with the Project. Closing of the Senior Credit Facility is subject to various conditions, including the completion of satisfactory due diligence by the parties and execution and delivery of definitive loan documents.