Gen III Oil Corporation

Consolidated Financial Statements
For the Year Ended December 31, 2018
(Expressed in Canadian dollars)

For the Year Ended December 31, 2018	**Page**

Management's Report

The accompanying consolidated financial statements of Gen III Oil Corporation (the "Company") are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as outlined in Part 1 of the Chartered Professional Accountants of Canada Handbook - Accounting, and include some amounts that are based on management's estimates and judgment.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee. The Audit Committee reviews the Company's annual consolidated financial statements and recommends its approval to the Board of Directors. The Company's auditors have full access to the Audit Committee, with and without management being present. These consolidated financial statements have been audited by Ernst & Young LLP, Chartered Professional Accountants.

(Signed) Greg Clarkes

Chief Executive Officer

(Signed) Rick Low

Chief Financial Officer

Vancouver, British Columbia, Canada

April 29, 2019

Independent auditor's report

To the Shareholders of
Gen III Oil Corporation

Opinion

We have audited the consolidated financial statements of **Gen III Oil Corporation** [the "Company"], which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in (deficit) equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $7,707,680 and comprehensive loss of $7,738,301 during the year ended December 31, 2018 and, as of that date, had an accumulated deficit of $85,169,772 and working capital of $ 614,631. As stated in note 1, these events or conditions, along with other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 in this auditor's report. We have nothing to report in this regard.

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

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

In preparing the consolidated 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 consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Ernst & Young LLP

Chartered Professional Accountants

Vancouver, Canada
April 29, 2019

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

	December 31, 2018	December 31, 2017
	$	$
ASSETS		
Current		
Cash and cash equivalents	2,115,968	6,284,891
Accounts receivable	135,256	100,428
Prepaid expenses	181,665	183,062
	2,432,889	6,568,381
Property (note 4)	8,328	8,328
Investments (note 5)	26,794	57,415
Total assets	**2,468,011**	**6,634,124**
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 6)	1,635,658	900,490
Accrued tax provision	182,600	161,000
	1,818,258	1,061,490
Non-current		
Deferred rent liability (note 10)	139,181	-
Total liabilities	1,957,439	1,061,490
Shareholders' Equity		
Share capital (note 7)	77,106,600	74,796,282
Contributed surplus	8,546,950	8,181,029
Accumulated deficit	(85,169,772)	(77,462,092)
Accumulated other comprehensive income		
Unrealized gain on investments	26,794	57,415
Total shareholders' equity	510,572	5,572,634
Total liabilities and shareholders' equity	**2,468,011**	**6,634,124**

Nature of operations (note 1)
Commitments (note 10)
Subsequent events (note 14)

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 consolidated financial statements

Gen III Oil Corporation
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

	2018 $	2017 $
Expense		
Exploration	-	24,007
General and administration	661,176	393,497
Investor relations	239,687	111,081
Professional fees	3,187,488	2,547,155
Salaries and benefits (note 6)	1,697,726	1,154,308
Share-based payments (note 7)	334,046	611,899
Site rent (note 10)	1,239,183	150,000
Supplies	147,568	-
Travel and accommodation	294,429	152,221
	7,801,303	5,144,168
Other (income) expense		
Interest income (note 6)	(71,241)	(49,494)
Foreign exchange (gain) loss	(6,508)	330,045
Impairment loss (note 6)	-	15,481
(Gain) loss on shares for debt settlement (note 7)	(15,874)	630,167
Gain on disposal of subsidiary (note 12)	-	(747,836)
	(93,623)	178,363
Net loss for the year	7,707,680	5,322,531
Other comprehensive (income) loss		
Unrealized loss (gain) on investments	30,621	(26,794)
Reallocation of exchange difference on translating foreign operations	-	(352,384)
	30,621	(379,178)
Total comprehensive loss for the year	7,738,301	4,943,353
Loss per share – basic and diluted	0.12	0.11
Weighted average number of shares outstanding - basic and diluted	64,224,227	48,492,276

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

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

	Share capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income (loss) Cumulative translation adjustments	Accumulated other comprehensive income (loss) 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 7)	12,018,734	-	-	-	-	12,018,734
Share issuance costs (note 7)	(1,264,417)	194,943	-	-	-	(1,069,474)
Share-based payments (note 7)	-	611,899	-	-	-	611,899
Loss for the year	-	-	(5,322,531)	-	-	(5,322,531)
Other comprehensive income	-	-	-	352,384	26,794	379,178
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 7)	2,379,894	31,875	-	-	-	2,411,769
Share issuance costs (note 7)	(69,576)	-	-	-	-	(69,576)
Share-based payments (note 7)	-	334,046	-	-	-	334,046
Loss for the year	-	-	(7,707,680)	-	-	(7,707,680)
Other comprehensive loss	-	-	-	-	(30,621)	(30,621)
Balance as at December 31, 2018	77,106,600	8,546,950	(85,169,772)	-	26,794	510,572

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

Gen III Oil Corporation
Consolidated Statements of Cash Flows
For the year ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

	2018 $	2017 $
Operating activities		
Net loss for the year	(7,707,680)	(5,322,531)
Adjustments for items not involving cash		
Deferred rent liability (note 10)	139,181	-
Share-based payments (note 7)	334,046	611,899
Accrued interest income	(3,873)	(23,279)
Foreign exchange loss	-	330,045
Impairment loss (note 6)	-	15,481
(Gain) loss on shares for debt settlement (note 7)	(25,929)	630,167
Gain on disposal of subsidiary (note 12)	-	(747,836)
Effect of foreign exchange on cash	-	22,339
	(7,264,255)	(4,483,715)
Net change in non-cash working capital		
Accounts receivable	(30,955)	(64,876)
Prepaid expenses	1,397	(105,029)
Accounts payable and accrued liabilities	856,166	597,397
Accrued tax provision	21,600	(74,468)
Net cash flows used in operating activities	(6,416,047)	(4,130,691)
Financing activities		
Issuance of share capital (note 7)	2,284,825	10,730,700
Proceeds from issuance of warrants (note 7)	31,875	-
Share issuance costs (note 7)	(69,576)	(757,183)
Net cash flows from financing activities	2,247,124	9,973,517
Investing activities		
Cash disposed in sale of subsidiary (note 12)	-	(598)
Net cash used in investing activities	-	(598)
(Decrease) increase in cash and cash equivalents during the year	(4,168,923)	5,842,228
Cash and cash equivalents, beginning of the year	6,284,891	442,663
Cash and cash equivalents, end of the year	2,115,968	6,284,891

Supplemental cash flow information (notes 6 and 11)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Gen III Oil Corporation (the “Company” or “Gen III Oil”) was incorporated under the laws of British Columbia and continued its incorporation into Alberta on December 6, 2017.

On January 15, 2017, VeroLube Inc. (“VeroLube”) assigned the patents for the ReGen™ technology to the Company. The Company plans to use the ReGen™ technology to re-refine used motor oil into high quality base lubricating oils.

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 consolidated 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 December 31, 2018, the Company had a working capital of $614,631, had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the year ended December 31, 2018, the Company reported a net loss of $7,707,680 and a comprehensive loss of $7,738,301 and as at December 31, 2018, had an accumulated deficit of $85,169,772. The Company has not generated revenues from operations. The Company is dependent on debt and 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 consolidated financial statements for the year ended December 31, 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.

The Company’s address is Suite 1750 - 400 Burrard St. Vancouver, B.C., V6C 3A6, Canada.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Standards Interpretations Committee (“IFRIC”).

These consolidated financial statements have been prepared on a historical cost basis, except investments that have been measured at fair value.

These consolidated financial statements for the year ended December 31, 2018 were approved and authorized for issue by the Board of Directors on April 29, 2019.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, and its wholly owned subsidiary, Gen III Oil (Alberta) Inc., a corporation incorporated under the provincial laws of Alberta on November 1, 2017, 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.

(b) Foreign Currency Translation

The presentation currency of the Company is the Canadian dollar, which is the same as the functional currency of the parent.

The functional currency of the Company and each of its subsidiaries are determined based on the currency of the primary economic environment in which that entity operates.

Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with financial institutions that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses or at the lower of their carrying value and estimated recoverable amount. The cost of an item consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item.

An item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statements of loss and comprehensive loss.

Where an item of property and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

The residual values, useful lives, and methods of depreciation are reviewed at each reporting period and adjusted prospectively if appropriate.

(e) Impairment of Non-Financial Assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount, net of amortization, that would have been determined had no prior impairment loss been recognized for the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments

Financial Assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following three categories: amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”).

Financial assets classified as amortized cost are initially measured at fair value and are subsequently measured at amortized cost. The Company’s cash and cash equivalents and accounts receivable are classified as amortized cost.

Financial assets classified as FVTPL are initially measured at fair value with unrealized gains and losses recognized through profit and loss. Regular way purchases and sales of FVTPL financial assets are accounted for at trade date, as opposed to settlement date. The Company has not classified any financial assets as FVTPL.

Financial assets classified as FVOCI are initially measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for recognition of credit impairment gains and losses, foreign exchange gains and losses, and interest revenue which are recorded in profit or loss. The Company’s investment in the shares of Coppermoly Ltd. is classified as FVOCI. The Company made an election to continue to measure the fair value changes in other comprehensive income (loss).

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial Liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as amortized cost or FVTPL.

Financial liabilities classified as amortized cost are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period of maturity. The effective interest rate is the rate that exactly discounts estimated future cash payments to the carrying value through the expected life of the financial liability, or, where appropriate, a shorter period. The Company’s accounts payable and accrued liabilities are classified as amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized through profit and loss. The Company has not classified any financial liabilities as FVTPL.

A financial liability is derecognized when the associated obligation is discharged, cancelled or expired.

Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset is impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments (continued)

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

(g) Rehabilitation Provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by construction activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related asset. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks. Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. As at December 31, 2018, the Company has not incurred any legal or constructive obligations that require a rehabilitation provision.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income Taxes

(i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred tax

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss).

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income Taxes (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Such deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances arises. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or recognized in profit or loss thereafter.

(i) Share Capital

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, options and share warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares, options, or warrants are shown in equity as a deduction, net of tax, from the proceeds.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in private placements was determined to be the more easily measurable component and the common shares were valued at their fair value, as determined by the closing trading price on the issuance date. The balance, if any, was allocated to the attached warrants.

In situations where share capital is issued, or received, as non-monetary consideration and the fair value of the asset or services received, or given up is not readily determinable, the fair market value (as defined) of the shares is used to record the transaction. The fair market value of the shares issued, or received, is based on the trading price of those shares on the appropriate Exchange on the date the shares are issued.

(j) Loss Per Share

Basic loss per share is computed by dividing the net loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted loss per common share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Loss Per Share (continued)

shares that would have been outstanding, if potentially dilutive instruments were converted.

Basic and diluted loss per share are the same, as under the treasury stock method, the effect of common shares issuable upon the exercise of stock options would be anti-dilutive.

(k) Share-based Payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit and loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit and loss over the remaining vesting period.

When equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received, unless the fair value of the goods and services received cannot be reasonably measured, in which case they are measured at the fair value of the equity instruments issued. Expenses are recorded in the statement of loss and comprehensive loss.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity instrument except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Segmented Reporting

The Company operates in one segment, being the used motor oil re-refinery business.

(m) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Operating lease payments are recognized as an operating expense in profit or loss on a straight-line basis over the lease term.

(n) Significant Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to the valuation of equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Significant Accounting Estimates and Judgments (continued)

Critical accounting estimates (continued)

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they were granted. Estimating the fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, and dividend yield and making assumptions about them.

(o) 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 quarter of 2020. The adoption of this standard did not have any impact on the Company's financial position as at December 31, 2018 and results of operations for the year ended December 31, 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. The Company made an election to continue to measure the fair value changes in other comprehensive income (loss).

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) New Accounting Pronouncements (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 on January 1, 2019, the Company expects to record right-of-use assets with a corresponding amount in lease liabilities on its statement of financial position. The right-of-use assets will be depreciated over the lesser of their useful lives or lease term. Interest expense on the lease liability will be charged to results of operations.

4. PROPERTY AND EQUIPMENT

The Company owns land with a carrying value of $8,328 as at December 31, 2018 and 2017.

5. INVESTMENTS

The Company holds 3,827,646 shares of Coppermoly Ltd. ("COY"), initially valued at $440,102. Changes in fair value, based on the market price on the Australian Stock Exchange, are recorded in other comprehensive income. Changes in fair value are shown in the table below.

	$
December 31, 2016	30,621
Unrealized gain	26,794
December 31, 2017	57,415
Unrealized loss	(30,621)
December 31, 2018	26,794

6. RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at the exchange amount established and agreed to by the related parties. Key Management personnel include 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.

(Expressed in Canadian dollars)

6. RELATED PARTY TRANSACTIONS (continued)

	Year ended December 31,	
	2018	**2017**
	$	**$**
Salaries to Key Management personnel	1,228,695	634,500
Fees for consulting services to a company controlled by the Executive Vice President	118,500	167,500
Fees for consulting services to a company controlled by the former Chief Operating Officer	10,688	49,875
Fees for consulting services to a company controlled by Chief Financial Officer	-	20,462
Professional fees to company controlled by a Director	66,500	101,000
Share-based payments to Key Management personnel	267,984	570,708
Total	1,692,367	1,544,045

Included in salaries to Key Management personnel for the year ended December 31, 2018, is $194,000 in bonuses paid (2017 - $nil) for achieving financing milestones.

Included in accounts payable and accrued liabilities as at December 31, 2018 is $165,000 (December 31, 2017 - $165,000) of accrued directors' fees, $11,878 (December 31, 2017 - $11,062) of professional fees payable to officers and directors and $25,772 (December 31, 2017 - $13,053) of accrued expense reimbursements payable to officers and directors.

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. 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 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**

(Expressed in Canadian dollars)

6. RELATED PARTY TRANSACTIONS (continued)

On November 16, 2018, members of the Company's Board of Directors purchased an aggregate of 1,275,000 units of the Company's non-brokered private placement at $0.40 per unit for gross proceeds of $510,000.

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.

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 and 2018	-

7. 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 6)	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
Private placements (note 6)	4,404,250	1,729,825
Debt settlement (note 6)	172,852	95,069
Exercise of warrants (note 6)	1,850,000	555,000
Share issuance costs	-	(69,576)
December 31, 2018	68,309,256	77,106,600

7. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued):

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. 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. All of the 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 had an expiry date of 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.

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.

7. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued):

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.

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. Each unit consists of one common share and one-half 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 consisting of 3,766,750 units for total gross proceeds of $1,506,700. The Company paid finders' fees consisting of cash fees in the aggregate of $47,100. Members of the Company's board of directors purchased an aggregate of 1,275,000 units. On December 5, 2018, the Company closed the second tranche of the non-brokered private placement consisting of 637,500 units for total gross proceeds of $255,000.

(Expressed in Canadian dollars)

7. SHARE CAPITAL (continued)

(c) Stock Options and Share-Based Payments

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

Date of grant	Number of options granted	Exercise price	Expiry date	Terms
2017-Feb-08	3,075,000	$0.17	2019-Feb-08	Fully vested on date of grant (note 15)
2017-Apr-01	300,000	$0.46	2019-Apr-01	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.
2017-May-17	180,000	$0.72	2019-May-17	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.
2017-Jun-01	300,000	$0.72	2019-Jun-01	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.
2017-Sep-20	500,000	$0.70	2019-Sep-20	The options were to vest in two equal tranches on March 20, 2018 and September 20, 2018. On April 5, 2018, 250,000 unvested stock options were forfeited and 250,000 vested options were not exercised and expired on July 4, 2018 due to the termination of the officer's employment.
2017-Oct-03	50,000	$0.74	2019-Oct-03	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. The remaining 10,000 vested options were not exercised and expired on November 21, 2018.
2018-Jan-05	600,000	$0.68	2020-Jan-05	The options vest in two equal tranches on May 31, 2018 and upon commissioning of the Bowden plant.
2018-Mar-13	1,200,000	$0.70	2021-Mar-13	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, 57,500 unvested options were forfeited due to the termination of an employee and the resignation of a consultant.
2018-Mar-26	500,000	$0.61	2020-Mar-26	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.
2018-May-06	500,000	$0.70	2020-May-06	The options vest in two equal tranches, one-half on December 31, 2018, and one-half upon commissioning of the Company's Bowden facility.
2018-Sep-01	300,000	$0.70	2020-Sep-01	150,000 options vested 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)

7. SHARE CAPITAL (continued)

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

The aggregate fair value of the stock options granted during the year ended December 31, 2018 was $756,087 (2017 - $679,430). 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:

	Year ended December 31,	
Inputs	**2018**	**2017**
Risk free interest rate	1.77% - 2.05%	0.65% - 1.56%
Expected dividend yield	nil	nil
Expected annual volatility	57% - 84%	33% - 73%
Expected life	1.5 years –3 years	3 months –1 year
Forfeiture rate	0% - 22%	10% - 20%

A summary of the status of the Company's stock options as at December 31, 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	(822,500)	0.66
Options expired	(610,000)	0.69
Outstanding – December 31, 2018	5,722,500	0.41

The Company has the following stock options outstanding and exercisable:

2018				
Options Outstanding			**Options Exercisable**	
Number of options at December 31, 2018	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price $**	**Number of options at December 31, 2018**	**Weighted Average Exercise Price $**
5,722,500	0.82	0.41	3,880,000	0.28

(Expressed in Canadian dollars)

7. SHARE CAPITAL (continued)

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

2017				
Options Outstanding			Options Exercisable	
Number of options at December 31, 2017	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price $	Number of options at December 31, 2017	Weighted Average Exercise Price $
4,055,000	1.22	0.30	3,405,000	0.22

(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 December 31, 2018, there were 7,093,723 warrants outstanding (December 31, 2017 – 6,741,598 warrants)

On February 9, 2017, the Company closed the final tranche of the Offering and issued 3,225,000 warrants.

In connection with the private placement on September 30, 2017, the Company issued 4,891,598 warrants. 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 cash consideration received to the shares and no value was allocated to the warrants as the fair value of the shares exceeded the cash consideration received.

In connection with the private placement on November 16, 2018, the Company issued 1,883,375 warrants. Each warrant entitles the holder to purchase one common share at any time until November 16, 2019 at an exercise price of $0.70 per common share. The Company used the residual value method to allocate all of the cash consideration received to the shares and no value was allocated to the warrants as the fair value of the shares exceeded the cash consideration received.

In connection with the private placement of units priced at $0.40 per unit on December 5, 2018, the Company issued 318,750 warrants. Each warrant entitles the holder to purchase one common share at any time until December 5, 2019 at an exercise price of $0.70 per common share. The Company used the residual value method to allocate the cash consideration received. Of the total proceeds received, $223,125 was allocated to the shares being the fair value of the shares ($0.35 per share) and the residual of $31,875 was allocated to the warrants.

7. SHARE CAPITAL (continued)

(d) Warrants (continued)

A summary of the status of the Company's warrants as at December 31, 2018 and changes during the year are as follows:

	Number of Warrants outstanding	Weighed 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 granted	2,202,125	0.70
Warrants exercised	(1,850,000)	0.30
Outstanding – December 31, 2018	7,093,723	0.91

As at December 31, 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).

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The Company's financial instruments at December 31, 2018 include cash and cash equivalents, accounts receivable, Investment in COY, and accounts payables and accrued liabilities.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to their immediate or short-term nature, unless otherwise noted. The fair value of COY shares was based on the closing prices of those shares on Australian Stock Exchange.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Value Hierarchy

Financial instruments recorded at fair value on the Consolidated Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Fair values of financial instruments are determined by valuation methods depending on hierarchy levels as defined below:

Level 1 – Quoted market price in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included in level 1 that are observable for the assets or liabilities, either directly (i.e. observed prices) or indirectly (i.e. derived from prices)

Level 3 – Inputs for the assets or liabilities are not based on observable market data

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the highest level of the hierarchy for which a significant input has been considered in measuring fair value. The following table presents the financial instruments recorded at fair value in the Consolidated Statement of Financial Position, classified using the fair value hierarchy described above:

Asset	**Level 1** **$**	**Level 2** **$**	**Level 3** **$**
December 31, 2018:			
Cash and cash equivalents	2,115,968	-	-
Investment in Coppermoly Ltd. (note 5)	26,794	-	-
December 31, 2017:			
Cash and cash equivalents	6,284,891	-	-
Investment in Coppermoly Ltd. (note 5)	57,415	-	-

The Company’s risk exposures and the impact on the Company’s financial instruments are summarized below:

Credit risk – is the risk of a financial loss to the Company if a counterparty fails to meet its contractual obligations. The Company’s cash and cash equivalents is largely held in a Canadian financial institution and management believes that the credit risk with respect to financial instruments recorded on the Consolidated Statement of Financial Position at December 31, 2018 is minimal. The Company’s accounts receivable consists of GST receivable from the government, interest income from a Canadian financial institution and a receivable from another financial institution. Management believes that the credit risk with respect to accounts receivable is minimal.

Currency risk – currency risk arises due to fluctuations in the exchange rates. The Company’s equity financings are sourced in Canadian dollars and the normal day-to-day expenditures are incurred in Canadian dollars. As at December 31, 2018, the Company’s holdings in foreign currencies are not material and exposure to currency risk is minimal.

Interest rate risk – is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s interest income is subject to bank deposit interest rates. During 2018, the Company received $55,754 of interest income from banks and accrued $3,873 of interest income. A 1% change in interest rate would affect income (loss) before tax of approximately $21,000.

(Expressed in Canadian dollars)

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk – is the risk that the Company will be unable to meet its obligations as they become due. The Company manages its liquidity risk by implementing a budget, forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at December 31, 2018, the Company had $2,115,968 in cash and cash equivalents, $1,818,258 in current liabilities and $139,181 in long-term liabilities.

The Company's current liabilities arose as a result of corporate expenses and accruals. Payment due dates for corporate expenses varies from invoice date to 30 to 60 days from date of the invoices.

Price risk – the Company is exposed to price risk with respect to commodity and equity pricing, and the investment in COY. The Company is exposed to changes in market prices and a sensitivity analysis suggests that a 10% change in COY share prices would affect other comprehensive income or loss by approximately $2,700 before tax.

9. CAPITAL MANAGEMENT

The Company manages its capital structure, being its share capital, and makes adjustments to it, based on the funds available to the Company, in order to support future business opportunities. The Company had share capital of $77,106,600 and $139,181 of long-term debt as at December 31, 2018. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Planning, annual budgeting, cash flow forecasting and implementing controls over major investment decisions are primary tools used to manage the Company's capital.

The Company's investment policy is to hold cash and cash equivalents in interest bearing bank accounts and highly liquid short-term interest bearing investments with maturities of three months or less which can be liquidated at any time without penalties.

The Company currently has no source of revenues. As such, the Company is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

10. COMMITMENTS

The Company's lease commitments as at December 31, 2018 are shown in the table below.

	2019 $	2020 $	2021 $	2022 $	2023 $
Total office lease commitment	344,046	90,061	-	-	-
Parkland lease	1,200,000	1,200,000	1,200,000	1,200,000	1,296,000
Total lease commitment	1,544,046	1,290,061	1,200,000	1,200,000	1,296,000

(Expressed in Canadian dollars)

10. COMMITMENTS (continued)

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 December 31, 2018, this establishes a deferred liability of $139,181, 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. The Company has not yet advised Elbow River of such date and due to the nature and timing of these costs, it is not practicable to estimate such reimbursable costs at this time.

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.

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31,	
	2018	**2017**
	$	**$**
Operating activities		
Interest income received from banks	55,754	26,453
Financing activities		
Broker commissions and fees settled by issuance of shares	-	312,291

(Expressed in Canadian dollars)

12. 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.

13. INCOME TAX

(a) The reconciliation of the Canadian statutory income tax rates to the effective tax rates are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Canadian statutory tax rate	27.00%	26.00%
Loss for the year before tax	$(7,707,680)	$(5,322,531)
Income tax recovery at statutory rates	(2,081,073)	(1,384,118)
Non-deductible (taxable) items	96,322	227,061
Deferred tax assets not recognized - change	2,019,247	1,603,280
Adjustment in respect of prior years	(35,521)	(170)
Effects of change in tax rates	-	(447,020)
Other	1,025	967
Income tax recovery (expense)	$ -	$ -

(b) Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits is dependent upon numerous factors, including the future profitability of operations in the jurisdictions in which the tax benefits arose.

The Company did not recognize deferred tax assets for the following deductible temporary differences:

	December 31, 2018	December 31, 2017
Non-capital losses	$25,836,289	$18,075,271
Property and equipment	539,729	539,729
Exploration and evaluation assets	2,723,436	2,723,436
Share issuance costs	835,589	1,043,466
Investments	49,086	18,465
Capital losses	43,829,653	43,829,653
Charitable donation	2,500	3,800
Loan receivable	29,014	29,014
Reserves	165,000	238,650
	$74,010,296	$66,501,484

(Expressed in Canadian dollars)

13. INCOME TAX (continued)

(c) The Company has approximately $2,723,000 of unclaimed resource expenses for Canadian income tax purposes which can be carried forward indefinitely and used to reduce taxable income in Canada.

The above noted capital losses have indefinite expiry period.

As at December 31, 2018, the Company has the following net operating losses, expiring in various years to 2038 and available to offset future taxable income in Canada.

2026	$ 44,000
2027	52,000
2028	318,000
2029	75,000
2030	94,000
2031	2,865,000
2032	2,268,000
2033	2,412,000
2034	2,040,000
2035	1,869,000
2036	1,516,000
2037	4,655,000
2038	7,628,000
	$25,836,000

Effective January 1, 2018, the tax rate increased from 26% to 27% as the British Columbia tax rate increased from 11% to 12%. The tax rate increase was substantively enacted on October 26, 2017 and was reflected in the calculation of deferred taxes for the year ended December 31, 2017.

14. SUBSEQUENT EVENTS

(a) On January 10, 2019, the Company granted 250,000 stock options to a consultant at an exercise price of $0.70 per share, expiring on January 10, 2021. 125,000 options will vest on April 10, 2019. 62,500 options will vest upon the Company securing letters of intent with used UMO suppliers amounting to 117,000,000 US Gallons of UMO in the aggregate. 62,500 options will vest upon commencement and commissioning of the Bowden facility.

(b) On February 13, 2019 the Company announced the unanimous uptake of all 3,075,000 stock options priced at $0.17 per option, in advance of their expiry on February 8, 2019. Of these, 2,700,000 options were exercised by directors of the Company. The exercise resulted in the issuance of 3,075,000 common shares and gross proceeds to the Company of $522,750.

(c) On April 1, 2019, the Company granted 3,750,000 stock options to directors, officers, employees and consultants at an exercise price of $0.40 per share, expiring on April 1, 2021. All of the options vested on April 1, 2019.