Gen III Oil Corporation

Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2019
(Unaudited)
(Expressed in Canadian dollars)

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For the Three and Nine Months Ended September 30, 2019 **Page**

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

	September 30, 2019	December 31, 2018
	$	$
ASSETS		
Current		
Cash and cash equivalents	1,143,337	2,115,968
Subscription receivable (note 6)	1,097,500	-
Accounts receivable	85,758	135,256
Prepaid expenses	409,163	181,665
Investment in sublease (note 4)	37,777	-
	2,773,535	2,432,889
Non-current		
Property	8,328	8,328
Investments	22,966	26,794
Right-of-use assets (note 5)	9,815,798	-
Total assets	**12,620,627**	**2,468,011**
LIABILITIES AND (DEFICIT) EQUITY		
Current		
Accounts payable and accrued liabilities (note 3)	1,575,520	1,635,658
Lease liabilities (note 5)	1,625,597	-
Accrued withholding tax provision	199,000	182,600
	3,400,117	1,818,258
Non-current		
Deferred rent liability	-	139,181
Lease liabilities (note 5)	10,056,138	-
Total liabilities	13,456,255	1,957,439
Shareholders' (Deficit) Equity		
Share capital (note 6)	79,954,317	77,106,600
Contributed surplus	8,841,025	8,546,950
Accumulated deficit	(89,653,936)	(85,169,772)
Accumulated other comprehensive income (AOCI)	22,966	26,794
Total shareholders' (deficit) equity	(835,628)	510,572
Total liabilities and shareholders' (deficit) equity	**12,620,627**	**2,468,011**

Nature of operations and going concern (note 1)
Commitments (notes 5 and 7)
Subsequent event (note 9)

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 Other Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Expense				
Amortization of right-of-use assets	165,934	-	497,802	-
General and administration	132,577	257,217	441,760	600,483
Investor relations	15,762	9,964	74,586	234,535
Professional fees	213,288	492,584	947,742	2,914,954
Salaries and benefits (note 3)	350,955	515,402	1,095,661	1,352,337
Share-based payments (note 6)	57,283	80,948	605,807	286,491
Site rent	-	337,959	-	901,224
Supplies	-	9,402	4,931	147,568
Travel and accommodation	19,173	59,291	131,942	235,727
	954,972	1,762,767	3,800,231	6,673,319
Other (income) expense				
Interest income	(2,913)	(7,877)	(20,147)	(62,931)
Rent income	(10,776)	-	(32,327)	-
Finance income from lease – head office premises	(1,332)	-	(5,112)	-
Finance cost for lease – plant site	285,544	-	857,834	-
Finance costs of lease – head office premises	3,254	-	13,613	-
Foreign exchange (gain) loss	(119)	1,575	9,253	(2,182)
Gain on shares for debt settlement (note 3)	-	-	-	(15,874)
	273,658	(6,302)	823,114	(80,987)
Net loss for the period	1,228,630	1,756,465	4,623,345	6,592,332
Other comprehensive loss				
Unrealized loss on investments	-	-	3,828	26,794
Total comprehensive loss for the period	1,228,630	1,756,465	4,627,173	6,619,126
Loss per share – basic and diluted	0.02	0.03	0.07	0.10
Weighted average number of shares outstanding - basic and diluted	71,502,816	63,905,006	71,123,478	63,634,064

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)

	Share capital	Contributed surplus	Accumulated deficit	AOCI	Total
	$	$	$	$	$
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 6)	650,069	-	-	-	650,069
Share-based payments (note 6)	-	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)
Issuance of share capital (note 6)	1,729,825	31,875	-	-	1,761,700
Share issuance costs (note 6)	(69,576)	-	-	-	(69,576)
Share-based payments (note 6)	-	47,555	-	-	47,555
Loss for the period	-	-	(1,115,348)	-	(1,115,348)
Other comprehensive loss	-	-	-	(3,827)	(3,827)
Balance as at December 31, 2018	77,106,600	8,546,950	(85,169,772)	26,794	510,572
Adjustment due to IFRS 16 implementation	-	-	139,181	-	139,181
Restated balance as at January 1, 2019	77,106,600	8,546,950	(85,030,591)	26,794	649,753
Issuance of share capital (note 6)	3,167,344	(463,094)	-	-	2,704,250
Issuance of warrants (note 6)	(109,075)	109,075	-	-	-
Share issuance costs – share capital (note 6)	(168,265)	-	-	-	(168,265)
Share issuance costs – broker warrants (note 6)	(42,287)	42,287	-	-	-
Share-based payments (note 6)	-	605,807	-	-	605,807
Loss for the period	-	-	(4,623,345)	-	(4,623,345)
Other comprehensive loss	-	-	-	(3,828)	(3,828)
Balance as at September 30, 2019	79,954,317	8,841,025	(89,653,936)	22,966	(835,628)

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, 2019 and 2018
(Unaudited)
(Expressed in Canadian dollars)

	2019	2018
	$	$
Operating activities		
Net loss for the period	(4,623,345)	(6,592,332)
Adjustments for items not involving cash		
Amortization of right-of-use assets	497,802	-
Share-based payments (note 6)	605,807	286,491
Accrued interest income	(148)	(1,936)
Lease interest – plant site	857,834	-
Gain on shares for debt settlement (note 3)	-	(25,929)
Deferred rent liability	-	101,224
	(2,662,050)	(6,232,482)
Net change in non-cash working capital		
Accounts receivable	49,646	11,587
Prepaid expenses	(263,755)	2,835
Accounts payable and accrued liabilities	544,788	571,377
Accrued withholding tax provision	16,400	(2,000)
Net cash flows used in operating activities	(2,314,971)	(5,648,683)
Financing activities		
Payment of lease liabilities (note 5)	(135,367)	-
Issuance of share capital (note 6)	1,606,750	555,000
Share issuance costs (note 6)	(168,265)	-
Net cash flows from financing activities	1,303,118	555,000
Investing activities		
Investment in sublease (note 4)	39,222	-
Net cash flows from investing activities	39,222	-
Decrease in cash and cash equivalents during the period	(972,631)	(5,093,683)
Cash and cash equivalents, beginning of the period	2,115,968	6,284,891
Cash and cash equivalents, end of the period	1,143,337	1,191,208

Supplemental cash flow information (note 8)

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") was incorporated under the laws of British Columbia and continued its incorporation into Alberta on December 6, 2017.

The Company holds patents to the ReGen™ technology and plans to use the technology to re-refine used motor oil into high quality base lubricating oils.

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, 2019, the Company had a working capital deficit of $626,582, 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, 2019, the Company reported a net loss of $4,623,345 and a comprehensive loss of $4,627,173 and as at September 30, 2019, had an accumulated deficit of $89,653,936. 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 condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 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

(a) Statement of Compliance

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") effective for the Company's reporting period ending December 31, 2019. 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 year ended December 31, 2018, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. Except for the implementation of International Financial Reporting Standards ("IFRS") 16 Leases (see note 2 (c)), 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, 2019 were approved and authorized for issue by the Board of Directors on November 26, 2019.

2. BASIS OF PREPARATION (continued)

(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 under the provincial laws of Alberta on November 1, 2017.

(c) New Accounting Pronouncements

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, Standing Interpretations Committee (“SIC”)-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company elected to calculate lease liabilities and right-of-use assets on the application date and not at inception of the leases.

The Company applied the available practical expedients wherein it:

I. Used a single discount rate to leases with reasonably similar characteristics.
II. Relied on its assessment of whether leases are onerous immediately before the date of initial application.
III. Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application.
IV. Accounted for the lease component and associated non-lease component in lease payments as a single lease component.
V. Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
VI. Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has office leases and a plant lease for the Bowden plant. Before the adoption of IFRS 16, the Company classified each of its leases at the inception date as an operating lease. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under prepaid expenses and accounts payable and accrued liabilities, respectively. Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases.

The Company recognized investment in sublease, right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for deferred rent liability previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(c) New Accounting Pronouncements (continued)

The effect of adopting IFRS 16 as at January 1, 2019 (increase/(decrease)) is as follows:

	$
Assets	
Investment in sublease – current portion	53,055
Investment in sublease – long-term portion	28,870
Right-of-use-assets	10,313,600
Total Assets	10,395,525
Liabilities	
Lease liabilities – current portion	803,888
Lease liabilities – long-term portion	9,591,637
Total liabilities	10,395,525

Set out below are the new accounting policies of the Company upon adoption of IFRS 16:

- Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over a range of one and 19 years, which is the shorter of their estimated useful life and the lease term. Right-of-use assets are subject to impairment.

- Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(c) New Accounting Pronouncements (continued)

- Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

- Significant judgements in the adoption of IFRS 16, Leases

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Company applies significant judgments in determining its incremental borrowing rate used in calculating the present value of lease payments. The Company takes into account factors such as interest rates in borrowings that are similar in nature and term to its leases. The Company compares its incremental borrowing rate to the rate incurred by similar market participants.

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 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.

	Three months ended September 30,		**Nine months ended September 30,**	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Salaries to Key Management personnel	252,750	246,750	758,250	981,945
Fees for consulting services to a company controlled by the former Executive Vice President	-	15,000	5,000	103,500
Fees for consulting services to a company controlled by the former Chief Operating Officer	-	-	-	10,688
Professional fees to company controlled by a Director	19,000	12,500	52,000	45,500
Share-based payments to Key Management personnel	33,288	74,862	551,362	240,343
Total	305,038	349,112	1,366,612	1,381,976

(Expressed in Canadian dollars)

3. RELATED PARTY TRANSACTIONS (continued)

Included in salaries to Key Management personnel for the three and nine months ended September 30, 2019, is $nil in bonuses paid (2018 - $194,000) for achieving financing milestones.

Included in accounts payable and accrued liabilities as at September 30, 2019 is $288,750 (December 31, 2018 - $165,000) of accrued directors' fees, $73,851 (December 31, 2018 - $11,878) of professional fees payable to officers and directors and $26,847 (December 31, 2018 - $25,772) 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 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**

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.

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.

On September 30, 2019, members of the Company's board of directors purchased an aggregate of 900,000 units of the Company's non-brokered private placement at $0.20 per unit for gross proceeds of $180,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable at a price of $0.30 per share until September 30, 2020. Cash commission of $94,605 was paid and 473,025 broker warrants were issued to one of the finder companies in which an officer of the Company is a director.

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.

(Expressed in Canadian dollars)

4. INVESTMENT IN SUBLEASE

On January 1, 2019, the Company adopted IFRS 16, Leases. As a result, the Company recognized an investment in sublease on January 1, 2019 for an office that it subleased. Set out below, are the carrying amounts of the Company's investment in sublease and the movements during the period:

	Investment in Sublease $
Lease payments as at December 31, 2018	88,668
Incremental borrowing rate as at January 1, 2019	12%
Discounted operating lease payments as at January 1, 2019	81,925
Prepaid rent	(4,926)
Interest accretion	5,112
Lease payments received	(44,334)
As at September 30, 2019	37,777
Current portion of investment in sublease	37,777
Long-term portion of investment in sublease	-
	37,777

5. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

On January 1, 2019, the Company adopted 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 Company has office leases and has entered into a plant lease for the Bowden plant in February 2018.

The Company has recorded these leases as a right-of-use assets and lease liability in the statement of financial position as at September 30, 2019. On January 1, 2019, the lease liability was measured at the present value of the future lease payments that were not paid at that date. These lease payments are discounted using a discount rate of 12%, which is the Company's incremental borrowing rate.

(Expressed in Canadian dollars)

5. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-Use-Assets $	Lease Liabilities $
Operating lease commitments as at December 31, 2018	-	26,188,122
Incremental borrowing rate as at January 1, 2019	-	12%
Discounted operating lease commitments as at January 1, 2019	10,395,525	10,395,525
Unpaid rent	-	600,000
Prepaid rent	-	(36,257)
Investment in sublease	(81,925)	-
Amortization	(497,802)	-
Interest accretion	-	871,447
Lease payments	-	(148,980)
Balance, as at September 30, 2019	9,815,798	11,681,735
Current portion of lease liabilities	-	1,625,597
Long-term portion of lease liabilities	-	10,056,138
Head office premises	54,714	-
Plant site	9,761,084	-
	9,815,798	11,681,735

The table below provides a reconciliation between the lease commitments as disclosed in the Company's consolidated financial statements for the year ended December 31, 2018 and the lease commitments that were discounted using the Company's incremental borrowing rate of 12% to arrive at the lease liabilities recognized on January 1, 2019.

	2019 $	2020 $	2021 $	2022 $	2023 $	Thereafter $	Total $
Total lease commitments disclosed as at December 31, 2018	1,544,046	1,290,061	1,200,000	1,200,000	1,296,000	Not disclosed	Not disclosed
Variable rent	(145,407)	(37,250)	-	-	-	-	-
Adjustment of inflation amount	-	-	-	-	(8,000)	-	-
Total lease payments discounted at January 1, 2019	1,398,639	1,252,811	1,200,000	1,200,000	1,288,000	19,848,672	26,188,122

The Company's outstanding lease payments on a calendar year basis as at September 30, 2019 are shown in the table below.

	2019 $	2020 $	2021 $	2022 $	2023 $	Thereafter $
Total office lease payments	49,660	16,553	-	-	-	-
Parkland lease payments	1,800,000	1,200,000	1,200,000	1,200,000	1,288,000	19,848,672
Total lease payments	1,849,660	1,216,553	1,200,000	1,200,000	1,288,000	19,848,672

(Expressed in Canadian dollars)

5. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

During the three and nine months ended September 30, 2019, the Company made $25,713 and $77,140 (2018 - $22,279 and $63,124), respectively of variable lease payments consisting of property maintenance expenses. In addition to basic rent, the Company pays monthly property maintenance expenses during the term of the office leases.

The Company has a short-term lease and a month-to-month lease with a total amount of $20,233 and $65,882 (2018 - $22,530 and $65,977) expensed for the three and nine months ended September 30, 2019, respectively. On August 1, 2019, the short-term lease was renewed for a one-year term with total remaining commitment of $49,030 up to July 31, 2020. The month-to-month lease was terminated on August 31, 2019.

The Parkland lease agreement commenced on February 1, 2018 and is for an initial term of 20 years. The Company and landlord may mutually agree to extend the lease term for an additional two terms, one for 10 years and the other for five 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. Currently, the landlord may cancel the Parkland lease agreement if rent payments are in arrears and if the Company does not rectify after receiving 30 days written notice. No notice has been received to date. 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, provided that the landlord completes certain pre-construction work, which to-date has not been completed. The Company estimates that the cost of this decommission work to be approximately $3.5 million. In addition, the Company is required to provide a security deposit of $2 million before commencement of any work on the Bowden facility, which to-date has not commenced.

6. 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, 2017	61,882,154	74,796,282
Private placements	4,404,250	1,729,825
Debt settlement	172,852	95,069
Exercise of warrants	1,850,000	555,000
Share issuance costs	-	(69,576)
December 31, 2018	68,309,256	77,106,600
Exercise of stock options (note 3)	3,075,000	985,844
Private placement	10,907,500	2,181,500
Issuance of warrants	-	(109,075)
Share issuance costs – share capital	-	(168,265)
Share issuance costs – broker warrants	-	(42,287)
September 30, 2019	82,291,756	79,954,317

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.

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued):

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 final tranche of the non-brokered private placement consisting of 637,500 units for total gross proceeds of $255,000.

On September 30, 2019, the Company closed a non-brokered private placement at $0.20 per unit for gross proceeds of $2,181,500, of which $1,067,500 and $30,000 were received on October 1 and 3, 2019, respectively. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable at a price of $0.30 per share for a period of one year from closing. The Company paid finders' fees consisting of cash fees in the aggregate of $135,105 and 665,525 broker warrants exercisable at a price of $0.30 per share until September 30, 2020. Cash commission of $94,605 was paid and 473,025 broker warrants were issued to one of the finder companies in which an officer of the Company is a director. Members of the Company's board of directors purchased an aggregate of 900,000 units.

(c) Stock Options and Share-Based Payments

Stock options granted during the nine months ended September 30, 2019 and year ended December 31, 2018 to the Company's officers, directors and consultants were as follows:

Date of grant	Number of options granted	Exercise price	Expiry date	Terms
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.
2019-Jan-10	250,000	$0.70	2021-Jan-10	Granted 250,000 stock options to a consultant. 125,000 options vested 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.
2019-Apr-01	3,750,000	$0.40	2021-Apr-01	Stock options granted to directors, officers, employees and consultants of the Company. The options fully vested on April 1, 2019.
2019-Jul-19	200,000	$0.40	2021-Jul-19	Stock options granted to an employee. All of the options will vest 120 days from the date of grant.

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

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

The aggregate fair value of the stock options granted during the three and nine months ended September 30, 2019 was $34,458 and $503,281 (2018 - $19,420 and $756,087), respectively. The Company recorded $57,283 and $605,807 (2018 - $80,948 and $286,491) of share-based payment expense for the three and nine months ended September 30, 2019, respectively. The fair value of the stock options granted to employees was estimated at the grant date using the Black-Scholes Option Pricing Model. The Company is unable to reliably estimate the fair value of the goods and services received for stock options granted to non-employees because the fees charged by non-employees are at market rates. Accordingly, the Company estimated the fair value of the stock options granted to non-employees 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	**2019**	**2018**	**2019**	**2018**
Risk free interest rate	1.37% - 1.55%	2.04%	1.37% - 1.88%	1.77% - 2.04%
Expected dividend yield	nil	nil	nil	nil
Expected annual volatility	99% - 103%	57%	97% - 103%	57% - 80%
Expected life	2 years	1.5 years	2 years	1.5 years – 3 years
Forfeiture rate	19%	0%	0% - 23%	0% - 22%

A summary of the status of the Company's stock options as at September 30, 2019 and changes during the period are as follows:

	Number of options	**Weighted average exercise price $**
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
Options granted	4,200,000	0.42
Options exercised	(3,075,000)	0.17
Options expired	(105,000)	0.72
Outstanding – September 30, 2019	6,742,500	0.52

The following stock options were outstanding as at September 30, 2019:

- 600,000 with an exercise price of $0.68 per option and an expiry date of January 5, 2020
- 500,000 with an exercise price of $0.70 per option and an expiry date of May 6, 2020
- 300,000 with an exercise price of $0.70 per option and an expiry date of September 1, 2020
- 250,000 with an exercise price of $0.70 per option and an expiry date of January 10, 2021
- 1,142,500 with an exercise price of $0.70 per option and an expiry date of March 13, 2021
- 3,750,000 with an exercise price of $0.40 per option and an expiry date of April 1, 2021
- 200,000 with an exercise price of $0.40 per option and an expiry date of July 19, 2021

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

(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 June 30, 2018.

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 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.

On September 30, 2019, the Company closed a non-brokered private placement at $0.20 per unit for gross proceeds of $2,181,500. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable at a price of $0.30 per share until September 30, 2020. The Company used the residual value method to allocate the cash consideration received. Of the total proceeds received, $2,072,425 was allocated to the shares being the fair value of the shares ($0.19 per share) and the residual of $109,075 was allocated to the warrants.

In connection with the September 30, 2019 private placement, the Company issued 665,525 broker warrants exercisable at a price of $0.30 per share until September 30, 2020. The fair value of $42,287 for the broker warrants 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:

Inputs	Three and nine months ended September 30, 2019
Risk free interest rate	1.59%
Expected dividend yield	nil
Expected annual volatility	120%
Expected life	1 year
Forfeiture rate	0%

The 8,321,400 warrants outstanding as at September 30, 2019 (7,093,723 - December 31, 2018) consist of the following:

- 1,883,375 with an exercise price of $0.70 per warrant and an expiry date of November 16, 2019
- 318,750 with an exercise price of $0.70 per warrant and an expiry date of December 5, 2019
- 5,453,750 with an exercise price of $0.30 per warrant and an expiry date of September 30, 2020
- 665,525 broker warrants exercisable at a price of $0.30 per share until September 30, 2020

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

(d) Warrants (continued)

A summary of the status of the Company's warrants as at September 30, 2019 and changes during the period are as follows:

	Number of warrants	Weighed average exercise price $
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
Warrants granted	6,119,275	0.30
Warrants expired	(4,891,598)	1.00
Outstanding – September 30, 2019	8,321,400	0.41

(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.

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).

7. COMMITMENTS AND CONTINGENCIES

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 re-refinery 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. As of June 1, 2018, the agreement may be terminated by Elbow River acting reasonably by notice in writing. No notice has been received to date. 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.

On June 17, 2019, the Company entered into a lease agreement for the lease of its office premises for five years effective on March 1, 2020. Annual basic rent for each of the five years after the effective date is $177,013, $181,178, $185,343, $189,508 and $193,673.

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)

8. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	$	$	$	$
Operating activities				
Interest income received from banks	2,567	9,542	22,493	49,382
Total lease payments paid	75,373	71,939	226,119	701,569
Total lease receipts	21,532	21,532	64,596	58,749
Interest paid on lease liabilities	3,253	-	13,613	-
Financing activities				
Recognition of right-of-use assets	-	-	10,313,600	-
Recognition of investment in sublease	-	-	81,925	-
Investing activities				
Recognition of lease liabilities	-	-	10,395,525	-

9. SUBSEQUENT EVENT

On November 6, 2019, the Company extended the expiry dates of 1,883,375 warrants with an exercise price of $0.70 per warrant to November 16, 2020 and 318,750 warrants with an exercise price of $0.70 per warrant to December 5, 2020.