

Gen III Oil Corporation

Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended September 30, 2020
(Unaudited)
(Expressed in Canadian dollars)

Gen III Oil Corporation

Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

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

	September 30, 2020	December 31, 2019
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	276,915	732,686
Accounts receivable (note 7)	65,231	80,787
Prepaid expenses	92,707	124,900
Investment in sublease (note 3)	-	23,944
	434,853	962,317
Deferred transaction costs (note 4)	-	318,207
Property	8,328	8,328
Investments	65,070	26,794
Right-of-use assets (note 5)	9,830,518	9,649,864
Total assets	10,338,769	10,965,510
LIABILITIES AND DEFICIT		
Current		
Accounts payable and accrued liabilities (note 7)	867,798	680,474
Lease liabilities (note 5)	3,433,875	2,148,642
Accrued tax provision	228,000	211,000
	4,529,673	3,040,116
Non-current		
Lease liabilities (note 5)	10,507,047	10,039,482
Term loan (note 6)	35,765	-
Total liabilities	15,072,485	13,079,598
Shareholders' Deficit		
Share capital (note 8)	80,752,704	79,954,317
Contributed surplus	9,132,189	8,900,467
Accumulated deficit	(94,683,679)	(90,995,666)
Accumulated other comprehensive income		
Unrealized gain on investments	65,070	26,794
Total shareholders' deficit	(4,733,716)	(2,114,088)
Total liabilities and shareholders' deficit	10,338,769	10,965,510

Nature of operations and going concern (note 1)
Commitments (notes 5 and 9)
Subsequent events (note 11)

Approved on behalf of the Board of Directors:

"Greg Clarkes"

Greg Clarkes, Director

"Larry Van Hatten"

Larry Van Hatten, Director

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

Gen III Oil Corporation

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited)

(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Expense				
Amortization of right-of-use assets (note 5)	167,173	165,934	500,693	497,802
General and administration	102,418	132,577	317,903	441,760
Investor relations	8,386	15,762	39,781	74,586
Professional fees	114,908	213,288	348,725	947,742
Salaries and benefits (note 7)	149,904	350,955	810,980	1,095,661
Share-based payments (note 8)	37,464	57,283	166,640	605,807
Supplies	-	-	-	4,931
Travel and accommodation	-	19,173	7,712	131,942
	580,253	954,972	2,192,434	3,800,231
Other (income) expense				
Interest income	(212)	(2,913)	(2,893)	(20,147)
Government grant (note 6)	-	-	(4,772)	-
Rent income	-	(10,776)	(21,551)	(32,327)
Finance income from lease – head office premises (note 3)	-	(1,332)	(686)	(5,112)
Finance cost for lease – plant site (note 5)	407,810	285,544	1,178,773	857,834
Finance costs of lease – head office premises (note 5)	17,758	3,254	43,379	13,613
Foreign exchange (gain) loss	(12,223)	(119)	(4,975)	9,253
Transaction costs (note 4)	308,304	-	308,304	-
	721,437	273,658	1,495,579	823,114
Net loss for the period	1,301,690	1,228,630	3,688,013	4,623,345
Other comprehensive loss				
Unrealized (gain) loss on investments	(42,104)	-	(38,276)	3,828
Total comprehensive loss for the period	1,259,586	1,228,630	3,649,737	4,627,173
Loss per share – basic and diluted	0.01	0.02	0.04	0.07
Weighted average number of shares outstanding - basic and diluted	85,451,937	71,502,816	83,686,892	71,123,478

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Gen III Oil Corporation

Condensed Consolidated Interim Statements of Changes in Deficit
(Unaudited)
(Expressed in Canadian dollars)

	Share capital	Contributed surplus	Accumulated deficit	Unrealized gain (loss) on investments	Total
	\$	\$	\$	\$	\$
Balance as at January 1, 2019	77,106,600	8,546,950	(85,030,591)	26,794	649,753
Issuance of share capital (note 8)	3,167,344	(463,094)	-	-	2,704,250
Issuance of warrants (note 8)	(109,075)	109,075	-	-	-
Share issuance costs – share capital (note 8)	(168,265)	-	-	-	(168,265)
Share issuance costs – broker warrants (note 8)	(42,287)	42,287	-	-	-
Share-based payments (note 8)	-	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)
Share-based payments (note 8)	-	59,442	-	-	59,442
Loss for the period	-	-	(1,341,730)	-	(1,341,730)
Other comprehensive gain	-	-	-	3,828	3,828
Balance as at December 31, 2019	79,954,317	8,900,467	(90,995,666)	26,794	(2,114,088)
Issuance of share capital (note 8)	416,049	-	-	-	416,049
Issuance of units (note 8)	457,200	50,800	-	-	508,000
Share issuance costs – share capital and units (note 8)	(60,580)	-	-	-	(60,580)
Share issuance costs – broker warrants (note 8)	(14,282)	14,282	-	-	-
Share-based payments (note 8)	-	166,640	-	-	166,640
Loss for the period	-	-	(3,688,013)	-	(3,688,013)
Other comprehensive gain	-	-	-	38,276	38,276
Balance as at September 30, 2020	80,752,704	9,132,189	(94,683,679)	65,070	(4,733,716)

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, 2020 and 2019
(Unaudited)
(Expressed in Canadian dollars)

	2020	2019
	\$	\$
Operating activities		
Net loss for the period	(3,688,013)	(4,623,345)
Adjustments for items not involving cash		
Amortization of right-of-use assets (note 5)	500,693	497,802
Share-based payments (note 8)	166,640	605,807
Government grant (note 6)	(4,235)	-
Accrued interest income	-	(148)
Lease interest – plant site (note 5)	1,178,773	857,834
Lease interest – head office premises (note 5)	43,379	13,613
	(1,802,763)	(2,648,437)
Net change in non-cash working capital		
Accounts receivable	15,556	49,646
Prepaid expenses	1,303	(263,755)
Accounts payable and accrued liabilities	505,531	544,788
Accrued tax provision	17,000	16,400
Net cash flows used in operating activities	(1,263,373)	(2,301,358)
Financing activities		
Payment of lease liabilities (note 5)	(119,811)	(148,980)
Term loan (note 6)	40,000	-
Issuance of share capital (note 8)	924,049	1,606,750
Share issuance costs (note 8)	(60,580)	(168,265)
Net cash flows from financing activities	783,658	1,289,505
Investing activities		
Investment in sublease (note 3)	23,944	39,222
Net cash flows from investing activities	23,944	39,222
Decrease in cash and cash equivalents during the period	(455,771)	(972,631)
Cash and cash equivalents, beginning of the period	732,686	2,115,968
Cash and cash equivalents, end of the period	276,915	1,143,337

Supplemental cash flow information (note 10)

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

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Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020 and 2019
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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. The Company’s address is Suite 1750 - 400 Burrard St. Vancouver, B.C., V6C 3A6, Canada.

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 September 30, 2020, the Company had a working capital deficit of \$4,094,820 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, 2020, the Company reported a net loss of \$3,688,013 and comprehensive loss of \$3,649,737 and as at September 30, 2020, had an accumulated deficit of \$94,683,679. 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. The Company’s ability to obtain financing may be subject to additional risks brought on by the current Covid-19 pandemic such as, but not limited to, temporary business closures, travel restrictions, quarantines, the general market uncertainty and reduced economic activity. 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 three and nine months ended September 30, 2020 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.

Covid-19 Pandemic

In March 2020, the World Health Organization declared a global pandemic related to the virus known as Covid-19. The expected impacts on global commerce has been and are anticipated to be far reaching. To date, the movement of people and goods has become restricted.

As the duration of the Covid-19 pandemic and its continuing effect on the economy is unknown at this time, the Company continues to gather information and assess the impact of this pandemic on the future of its development plans.

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2. BASIS OF PREPARATION

(a) Statement of Compliance

These 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, 2020. 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, 2019, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB. The accounting policies applied are the same as those applied in the Company’s most recent annual financial statements which are filed under the Company’s profile on SEDAR at www.sedar.com. The results for interim periods are not necessarily indicative of results for the entire year. The preparation of these 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, 2020 were approved and authorized for issue by the Board of Directors on November 25, 2020.

(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

There are no new accounting pronouncements that are expected to have a significant impact on the Company’s financial position and results of operations.

3. INVESTMENT IN SUBLEASE

Set out below, are the carrying amounts of the Company’s investment in sublease and the movements during the period:

	Investment in Sublease
	\$
As at January 1, 2019	81,925
Prepaid rent	(4,926)
Interest accretion	6,057
Lease payments received	(59,112)
As at December 31, 2019	23,944
Interest accretion	686
Lease payments received	(24,630)
As at September 30, 2020	-

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4. DEFERRED TRANSACTION COSTS

Deferred transaction costs consist of consulting costs incurred to evaluate potential financing for a plant in Bowden, Alberta. These costs have been expensed for the three months ended September 30, 2020 as the Company is now negotiating financing with other parties other than the party to which the deferred transaction costs relate.

5. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company has recorded the plant site and head office leases as a right-of-use assets and lease liability in the statement of financial position as at December 31, 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.

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
	\$	\$
Current portion	-	2,148,642
Long-term portion	9,649,864	10,039,482
Balance, as at December 31, 2019	9,649,864	12,188,124
New operating lease	681,347	681,347
Prepaid rent	-	(30,890)
Amortization	(500,693)	-
Interest accretion – plant site	-	1,178,773
Interest accretion – head office premises	-	43,379
Lease payments	-	(119,811)
Balance, as at September 30, 2020	9,830,518	13,940,922
Current portion of lease liabilities	-	3,433,875
Long-term portion of lease liabilities	-	10,507,047
Head office premises	601,856	-
Plant site	9,228,662	-
Balance, as at September 30, 2020	9,830,518	13,940,922

On June 17, 2019, the Company entered into a lease agreement for the lease of its office premises for an initial term of five years commencing on March 1, 2020. The Company has recorded this lease as a right-of-use asset and lease liability on March 1, 2020. As at March 1, 2020, the total future lease payments of \$896,169 over the initial lease term was discounted at the Company's incremental borrowing rate of 12% and the Company recorded a lease liability and right-of-use-asset of \$681,347.

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

The Company's outstanding lease payments on a calendar year basis as at September 30, 2020 are shown in the table below.

	2020	2021	2022	2023	2024	Thereafter
	\$	\$	\$	\$	\$	\$
Total office lease payments	44,253	165,385	169,203	188,813	192,978	2,082
Plant site lease payments	3,595,000	1,200,000	1,200,000	1,288,000	1,296,000	18,552,672
Total lease payments	3,639,253	1,365,385	1,369,203	1,476,813	1,488,978	18,554,754

During the three and nine months ended September 30, 2020, the Company made \$19,312 and \$53,512 (2019 - \$25,713 and \$77,140), 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. All of these costs are recognized in general and administrative expenses.

The Company had a short-term lease and a month-to-month lease with a total amount of \$14,708 and \$44,124 (2019 - \$20,233 and \$65,882) expensed for the three and nine months ended September 30, 2020, respectively. The month-to-month lease was terminated on August 31, 2019. On August 1, 2019, the short-term lease was renewed for a one-year term to July 31, 2020. After the expiry date, it was leased on a month-to-month basis. The lease was terminated on October 31, 2020.

The plant site 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 lease agreement if rent payments are in arrears and if the Company does not rectify after receiving 30 days written notice. The Company intends to construct its new motor oil re-refinery on the existing process pads at the plant site in Bowden, Alberta. 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. TERM LOAN

On June 11, 2020, the Company obtained an unsecured and interest free \$40,000 term loan from the Government of Canada that is available until December 31, 2020. On June 11, 2020, the Company drew down \$40,000 of the LOC. If the LOC is not repaid by December 31, 2020, the LOC will be converted to a 2-year unsecured and interest free term loan to be repaid by December 31, 2022. On December 31, 2022, the Company has the option to convert the loan into a 3-year unsecured term loan at an annual interest rate of 5%. The remaining balance is to be paid in full no later than December 31, 2025. The balance of the loan may be repaid less a 25% forgiveness if repaid in full by December 31, 2022.

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6. TERM LOAN (continued)

As the loan is interest free, the Company recorded the present value of loan using a discount rate of 5%, which is the implicit interest rate of the loan. Accordingly, on June 11, 2020, the Company recorded \$35,228 as the estimated fair value of the loan and recognized \$4,772 as government grant. Interest on the loan will be accreted using the effective interest method with an interest rate of 5%. During the three and nine months ended September 30, 2020, the Company recognized \$445 and \$537 of accreted interest. If the Company repays the loan by December 31, 2022, the Company will recognize the difference between the carrying value of the loan and the amount repaid as government grant.

7. 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 former Executive Vice President, the Chief Operating Officer, the Executive Vice President Corporate Finance, the Chief Financial Officer and the Directors.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Salaries to Key Management personnel	87,750	252,750	609,135	758,250
Fees for consulting services to a company controlled by the former Executive Vice President	-	-	-	5,000
Professional fees to a company controlled by a Director	18,000	19,000	51,000	52,000
Share-based payments to Key Management personnel	40,598	33,288	163,764	551,362
Total	146,348	305,038	823,899	1,366,612

Included in salaries to Key Management personnel for the three and nine months ended September 30, 2020, is \$15,885 in bonuses paid (2019 - \$nil) for achieving private placement financing milestones.

Included in accounts payable and accrued liabilities as at September 30, 2020 is \$288,750 (December 31, 2019 - \$330,000) of accrued directors' fees, \$155,000 (December 31, 2019 - \$4,935) of wages and professional fees payable to officers and directors and \$6,764 (December 31, 2019 - \$12,735) of accrued expense reimbursements payable to officers and directors.

Included in accounts receivable as at September 30, 2020 and December 31, 2019 is \$16,966 of withholding taxes paid on behalf of directors.

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, which was subsequently extended to

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7. RELATED PARTY TRANSACTIONS (continued)

December 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.

On May 29, 2020, the Company completed a non-brokered private placement and issued an aggregate of 2,773,659 shares at a price of \$0.15 per share for gross proceeds of \$416,049. The Company paid finder's fees of \$25,973 in cash and issued 173,156 share purchase warrants to one of the finder companies in which an officer of the Company is a director.

On September 17, 2020, the Company completed a non-brokered private placement of 2,540,000 units at a price of \$0.20 per unit for gross proceeds of \$508,000. Each unit consists of one common share in the capital of the Company and one-half of one non-transferable common share purchase warrant. Each whole warrant is exercisable to acquire one share at an exercise price of \$0.30 per share until September 17, 2021. A member of the Company's board of directors purchased an aggregate of 250,000 units of the private placement for gross proceeds of \$50,000.

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.

8. 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, 2018	68,309,256	77,106,600
Private placements (note 7)	10,907,500	2,181,500
Issuance of warrants (note 7)	-	(109,075)
Exercise of options (note 7)	3,075,000	985,844
Share issuance costs – share capital	-	(168,265)
Share issuance costs – broker warrants	-	(42,287)
December 31, 2019	82,291,756	79,954,317
Issuance of share capital (note 7)	2,773,659	416,049
Issuance of units (note 7)	2,540,000	457,200
Share issuance costs – share capital and units	-	(60,580)
Share issuance costs – broker warrants	-	(14,282)
September 30, 2020	87,605,415	80,752,704

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, which was subsequently extended to December 30, 2020. 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

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8. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

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 (note 7).

On May 29, 2020, the Company completed a non-brokered private placement (the "Offering"). In connection with the closing of the Offering, the Company issued an aggregate of 2,773,659 shares (the "Shares") at a price of \$0.15 per Share for gross proceeds of \$416,049. The Company paid aggregate finder's fees of \$26,873 and issued 173,156 Share purchase warrants (the "Finder's Warrants") in connection with subscriptions from subscribers introduced to the Offering by the finders. Each Finder's Warrant is exercisable to acquire one Share in the capital of the Company at an exercise price of \$0.15 per Share until May 29, 2021, which is 12 months from the date of issuance. The Company paid finder's fees of \$25,973 in cash and issued 173,156 Finder's Warrants to one of the finder companies in which an officer of the Company is a director (note 7).

On September 17, 2020, the Company completed a non-brokered private placement of 2,540,000 units at a price of \$0.20 per unit for gross proceeds of \$508,000. Each unit consists of one common share in the capital of the Company and one-half of one non-transferable common share purchase warrant. Each whole warrant is exercisable to acquire one share at an exercise price of \$0.30 per share until September 17, 2021. The Company paid cash finder's fee of \$3,000. A member of the Company's board of directors purchased an aggregate of 250,000 units of the private placement for gross proceeds of \$50,000.

(c) Stock Options and Share-Based Payments

Stock options granted during the year ended December 31, 2019 and the nine months ended September 30, 2020 to the Company's officers, directors, employees and consultants were as follows:

Date of grant	Number of options granted	Exercise price	Expiry date	Terms
2019-Jan-10	250,000	\$0.70	2021-Jan-10	Stock options granted 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 vested 120 days from the date of grant.
2020-Feb-04	600,000	\$0.25	2022-02-04	Stock options granted to an employee of which 300,000 vest on May 31, 2020 and 300,000 vest upon commissioning of the Bowden plant.
2020-Jun-02	600,000	\$0.20	2022-Jun-02	Stock options granted to an employee of which 300,000 vest on June 2, 2020 and 300,000 vest upon financing of the Company's first re-refinery plant.
2020-Sep-30	750,000	\$0.20	2022-Sep-30	Stock options granted to a director that vests on December 29, 2020.

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8. 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, 2020 was \$85,086 and \$182,794 (2019 - \$34,458 and \$503,281), 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 with no allowance for stock options granted. 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:

Inputs	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Risk free interest rate	0.25% - 0.28%	1.37% - 1.55%	0.25% - 1.58%	1.37% - 1.88%
Expected dividend yield	nil	nil	nil	nil
Expected annual volatility	119% - 121%	99% - 103%	109% - 121%	97% - 103%
Expected life	2 years	2 years	2 years	2 years
Forfeiture rate	0% - 16%	0% - 19%	0% - 18%	0% - 23%

A summary of the status of the Company's stock options as at September 30, 2020 and changes during the period are as follows:

	Number of options	Weighted average exercise price \$
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 – December 31, 2019	6,742,500	0.52
Options granted	1,950,000	0.22
Options - forfeited	(20,000)	0.70
Options expired	(1,500,000)	0.67
Outstanding – September 30, 2020	7,172,500	0.41

The following stock options were outstanding as at September 30, 2020:

Number of options	Exercise price per option \$	Expiry date
250,000	0.70	January 10, 2021
1,122,500	0.70	March 13, 2021
3,650,000	0.40	April 1, 2021
200,000	0.40	July 19, 2021
600,000	0.25	February 4, 2022
600,000	0.20	June 2, 2022
750,000	0.20	September 30, 2022
7,172,500		

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8. SHARE CAPITAL (continued)

(d) 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, which was subsequently extended to December 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.

On May 29, 2020, the Company completed the Offering. In connection with the closing of the Offering, the Company issued an aggregate of 2,773,659 Shares at a price of \$0.15 per Share for gross proceeds of \$416,049. The Company paid aggregate finder's fees of \$26,873 and issued 173,156 Finder's Warrants in connection with subscriptions from subscribers introduced to the Offering by the finders. Each Finder's Warrant is exercisable to acquire one Share in the capital of the Company at an exercise price of \$0.15 per Share until May 29, 2021, which is 12 months from the date of issuance. The fair value of \$14,282 for the Finder's warrants was estimated at the grant date using the Black-Scholes Option Pricing Model.

On September 17, 2020, the Company completed a non-brokered private placement of 2,540,000 units at a price of \$0.20 per unit for gross proceeds of \$508,000. Each unit consists of one common share in the capital of the Company and one-half of one non-transferable common share purchase warrant. Each whole warrant is exercisable to acquire one share at an exercise price of \$0.30 per share until September 17, 2021. The Company used the residual value method to allocate the cash consideration received. Of the total proceeds, \$457,200 was allocated to the shares being the fair value of the shares (\$0.18 per share) and the residual of \$50,800 was allocated to the warrants.

The inputs for the Black-Scholes Option Pricing Model are as follows:

Inputs	May 29, 2020	September 30, 2019
Risk free interest rate	0.26%	1.59%
Expected dividend yield	nil	nil
Expected annual volatility	127%	120%
Expected life	1 year	1 year
Forfeiture rate	0%	0%

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8. SHARE CAPITAL (continued)

(d) Warrants (continued)

A summary of the status of the Company's warrants as at September 30, 2020 and changes during the period are as follows:

	Number of Warrants outstanding	Weighed average exercise price \$
Outstanding – December 31, 2018	7,093,723	0.91
Warrants granted	6,119,275	0.30
Warrants expired	(4,891,598)	1.00
Outstanding – December 31, 2019	8,321,400	0.41
Warrants granted	1,443,156	0.28
Warrants expired	(665,525)	0.30
Outstanding – September 30, 2020	9,099,031	0.39

On November 5, 2019, the Company extended the expiry dates of the 1,883,375 warrants to November 16, 2020 from November 16, 2019 and the 318,750 warrants to December 5, 2020 from December 5, 2019. The extension of these warrants did not result in any incremental value of the warrants.

On September 28, 2020, the Company extended the expiry date of the 5,453,750 warrants to December 30, 2020 from September 30, 2020. The extension of these warrants did not result in any incremental value of the warrants.

The 9,099,031 warrants outstanding as at September 30, 2020 consist of the following:

Number of warrants	Exercise price per warrant \$	Expiry date
1,883,375	0.70	November 16, 2020
318,750	0.70	December 5, 2020
5,453,750	0.30	December 30, 2020
173,156	0.15	May 29, 2021
1,270,000	0.30	September 17, 2021
9,099,031		

(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

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).

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9. COMMITMENTS

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 a proposed rerefinery 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. As construction of the Bowden plant has not started, 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.

10. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Operating activities				
Interest income received from banks	209	2,567	2,880	22,493
Total lease payments paid	63,565	75,373	173,322	226,119
Total lease receipts	-	21,532	35,887	64,596
Interest paid on lease liabilities	17,758	3,253	43,379	13,613
Financing activities				
Recognition of right-of-use assets	-	-	681,347	10,313,600
Recognition of lease liabilities	-	-	681,347	10,395,525
Investing activities				
Recognition of investment in sublease	-	-	-	81,925

11. SUBSEQUENT EVENTS

- (a) On November 18, 2020, the Company engaged Blue Deer Capital Partners for an initial term expiring December 31, 2021, to provide non-exclusive financial advisory services for a monthly fee. The Company has also agreed to issue one million fully vested stock options to Blue Deer Capital Partners, with an exercise price of 30 cents per common share and expiry date of May 18, 2022.

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11. SUBSEQUENT EVENTS (continued)

- (b) On November 24, 2020, the Company announced to settle, subject to the approval of the TSX Venture Exchange, \$200,250 in debt to directors of the Company in exchange for 513,460 common shares at a deemed price of \$0.39 per share. The fair value of the shares was recorded as \$0.39 per share, which was the November 24, 2020 closing price of the shares on the TSX Venture Exchange.

<u>Debt Amount</u>	<u>Number of Shares</u>	<u>Nature of Debt</u>
\$171,375	439,423	33 months of directors' fees less statutory deductions
\$ 28,875	74,037	33 months of committee fees less statutory deductions
\$200,250	513,460	Total