B-32 EXPLORATION

Dear fellow shareholders,

Could we be near the end of COVID and closing in on some type of new normal? It is starting to feel like that with plans for Stampede and spectators in the stands. For Calgary and all of Alberta this is welcomed news as we have been to hell and back with social deprivation compounded by the devastation in the energy business in 2020. There is no doubt we have turned the corner on both fronts. We shared a lot of optimism when we last reported six weeks ago, and the fundamentals have continued to improve. Since that time oil price has risen from $60/BBL US WTI and is now attempting to break through $70/BBL with many forecasters talking about the next step to $80/BBL. That momentum has translated into a rising sea level for energy stocks with the Capped TSX Energy Index (XEG) up >40% year-to-date causing the investment community to sit up and take notice.

In addition to the city having some fun again this has been great news for B-32 Exploration. In every energy cycle, as public stocks increase in value they reach a point where the out-sized returns begin to diminish and only those companies with a low cost structure and exceptional drilling inventory will outperform. This is where high quality assets like ours shine, and we are perfectly positioned with an exceptionally large asset base. We are getting closer to this point as the fear of missing out (especially if you are underweight energy) is starting to become evident and pressure to increase oil and gas allocations is mounting for generalist investors notwithstanding ESG trepidations.

For B-32 Exploration we have seen this starting to play out in a positive manner over the last few weeks. We have initiated discussions with a number of interested parties as we advance towards funding our drilling program. Feedback on our asset and opportunity has been positive and we expect discussions to continue to advance through June and into the summer. Based on the time frames we are working with, rather than force a closing before the end of June we are moving our closing to early fall to ensure we have sufficient quality time to work with these parties. We hope this change is not going to inconvenience those planning on investing and we will continue to keep you informed as we progress towards closing.

We have also included with this report our Q1 quarterly financial statements.

Have a great summer and feel free to reach out to either of us if you have any questions.

Sincerely yours,

Signed “Larry Evans”	Signed “Brad Culver”
Larry Evans	Brad Culver
Executive Chairman	President

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CALGARY, AB T2P 3M3
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B-32 EXPLORATION

2021 FIRST QUARTER

FINANCIAL STATEMENTS

MARCH 31, 2021

STATEMENTS OF FINANCIAL POSITION

(unaudited) ($)	Notes	**March 31, 2021**	December 31, 2020
ASSETS			
Cash		**666,345**	707,824
Trade and other receivables		**34,344**	26,857
Deposits and prepaid expenses		**-**	-
Total current assets		**700,689**	734,681
Exploration and evaluation assets	5	**6,847,211**	6,800,470
Total assets		**7,547,900**	7,535,151
LIABILITIES			
Trade and other payables		**264,600**	256,678
Total current liabilities		**264,600**	256,678
Long-term debt	6	**60,000**	40,000
Total liabilities		**324,600**	296,678
SHAREHOLDERS' EQUITY			
Shareholder's capital	7	**7,743,036**	7,743,036
Contributed surplus	8	**722,871**	645,922
Deficit		**(1,242,607)**	(1,150,485)
Total equity		**7,223,300**	7,238,473
Total equity and liabilities		**7,547,900**	7,535,151

See accompanying notes to the financial statements.

On behalf of the Board of Directors,

Signed "Larry Evans"
Larry Evans
Executive Chairman

Signed "Brad Culver"
Brad Culver
President

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(unaudited)		Three Months Ended March 31,	
($)	Notes	**2021**	2020
Consulting fees		**5,700**	7,500
Office and general		**6,000**	18,162
Share-based compensation	8	**76,949**	89,781
Professional fees		**3,850**	3,458
EXPENSES		**92,499**	**118,901**
LOSS BEFORE FINANCE INCOME		**(92,499)**	(118,901)
Finance income		**377**	2,591
NET LOSS AND COMPREHENSIVE LOSS		**(92,122)**	(116,310)
NET LOSS PER SHARE			
Basic & Diluted	10	**(0.02)**	(0.02)

See accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY

(unaudited)

($)	Notes	Number of Common Shares	Shareholders' Capital	Contributed Surplus	Deficit	Total Equity
BALANCE AT DECEMBER 31, 2020		**5,715,680**	**7,743,036**	**645,922**	**(1,150,485)**	**7,238,473**
Net loss for the period		**0**	**0**	**0**	**(92,122)**	**(92,122)**
Common shares issued on financing	7	**0**	**0**	**0**	**0**	**0**
Share-based compensation	8	**0**	**0**	**76,949**	**0**	**76,949**
BALANCE AT MARCH 31, 2021		**5,715,680**	**7,743,036**	**722,871**	**(1,242,607)**	**7,223,300**
BALANCE AT DECEMBER 31, 2019		5,715,680	7,743,036		(436,371)	7,306,665
Net loss for the period		0	0	0	(116,310)	(116,310)
Common shares issued on financing	7	0	0	0	0	0
Share-based compensation	8	0	0	89,781	0	89,781
BALANCE AT MARCH 31, 2020		5,715,680	7,743,036	89,781	(552,681)	7,280,136

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

(unaudited)		Three Months Ended March 31,	
($)	Notes	**2021**	2020
OPERATING ACTIVITIES			
Net loss for the period		**(92,122)**	(116,310)
Share-based compensation	8	**76,949**	89,781
Changes in operating non-cash working capital:	11	**2,435**	29,025
Net cash flows from operating activities		**(12,738)**	2,496
INVESTING ACTIVITIES			
Additions to exploration and evaluation assets	5	**(46,741)**	(88,959)
Changes in investment non-cash working capital	11	**(2,000)**	12,312
Net cash flows used in investing activities		**(48,741)**	(76,647)
FINANCING ACTIVITIES			
Issuance of common shares	7	**-**	-
Proceeds from long-term debt	6	**20,000**	-
Net cash flows from financing activities		**20,000**	-
CHANGE IN CASH DURING THE PERIOD		**(41,479)**	(74,151)
CASH BEGINNING OF THE PERIOD		**707,824**	1,047,004
CASH END OF THE PERIOD		**666,345**	972,853

See accompanying notes to the financial statements.

1. REPORTING ENTITY

B-32 Exploration Ltd. ("the Company" or "B-32") is a privately held corporation, incorporated in Canada on February 8, 2018, with its head office located at 650 – 635 8 Avenue SW, Calgary, Alberta. The Company is engaged in the appraisal of oil and natural gas in Western Canada. B-32 is an early stage enterprise that has accumulated a large contiguous land base prospective for light oil. The Company does not have any proved or probable reserves.

2. BASIS OF PRESENTATION

(a) Statement of compliance:

These unaudited interim financial statements for the three month period ended March 31, 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34, Interim Financial Reporting. These unaudited interim financial statements were approved and authorized for issue by the Board of Directors on June 1, 2021.

(b) Basis of measurement:

The interim financial statements have been prepared on a going concern basis under the historical cost basis.

(c) Functional and presentation currency:

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Where applicable, further information about the significant accounting judgments, estimates and assumptions made in preparing the financial statements is disclosed in the notes specific to that item.

(a) Fair value of financial instruments:

Where the fair value of certain financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Trade and other receivables and trade and other payables are classified at amortized cost. The fair values of trade and other receivables and trade and other payables approximate their carrying amounts due to their short terms to maturity.

(b) Income taxes:

Tax regulations and legislation are subject to change and differing interpretations requiring management judgment. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods based on future taxable profits, which requires management judgment. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods, which requires management judgment. Income tax filings are subject to audits and reassessments and changes in facts, circumstances and interpretations of the standards may result in a material increase or decrease in the Company's provisions for income taxes.

(c) Share-based compensation

The company measures the cost of equity-settled transactions with employees, consultants and directors by reference to the fair value of the equity instruments at the date at which they were granted. The fair value of stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on Government of Canada bonds).

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Intangible exploration and evaluation assets:

(i) Recognition and measurement:

Exploration and evaluation costs

The Company accounts for exploration and evaluation ("E&E") costs in accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources." Undeveloped land is accounted for as exploration and evaluation assets on the statements of financial position. Pre-license E&E costs and lease expiries are recognized in the statements of loss and comprehensive loss as incurred. Costs of exploring for and evaluating oil and natural gas properties are capitalized and the resulting E&E assets are tested for impairment.

E&E costs related to each license/prospect are initially capitalized within "exploration and evaluation assets." Such E&E assets may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administrative expenses, including remuneration of production personnel and supervisory management and the projected costs of retiring the assets (if any), but do not include general prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to earnings as they are incurred.

E&E assets are not depleted and are carried forward until technical feasibility and commercial viability of extracting an oil or natural gas resource is considered to be determined. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determined when proved and/or probable reserves are determined to exist. A review of each exploration licence or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered.

Upon determination of proved and probable reserves, E&E assets attributable to those reserves are first tested for impairment at the CGU level, and then reclassified from E&E assets to property, plant and equipment.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Routine repairs and maintenance costs are charged to earnings during the period in which they are incurred.

(b) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in earnings.

An impairment loss on financial assets carried at amortized cost is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in earnings.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. These indicators include, but are not limited to, future prices, future cost and reserves value. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas development and production ("D&P") assets, and also if facts and circumstances suggest the carrying amount exceeds the recoverable amount.

(c) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the Company expects some or all of the provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. There are no provisions currently recognized.

(d) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Company intends to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are presented as non-current.

(e) Loss per share:

Basic loss per share is calculated by dividing net loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the year, plus the weighted average number of common shares that would be issued if all the dilutive potential common shares were converted into common shares. The dilutive potential common shares consist of share-based compensation for which dilution is determined by assuming that the proceeds received from "in-the-money" stock options and warrants and unrecognized future share-based compensation expense are used to repurchase common shares at the average market rate during the period.

(f) Share-based payments:

Under the Company's stock option plan, options to purchase common shares were granted to directors and officers at market prices. Option grants of the Company are measured at fair value at the date of grant and recognized as share-based compensation expense with a corresponding increase in contributed surplus. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. When options vest in instalments over the vesting period, each instalment is accounted for as a separate arrangement. A forfeiture rate is estimated on the grant date and, at each reporting date, the Company revised its estimates of the number of options that are expected to vest.

(g) Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions that define the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realized the asset and settle the liability simultaneously.

The Company does not have any derivative financial instruments. Non-derivative financial instruments comprise trade and other receivables, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortized cost using the effective interest method if the time value of money is significant, less any impairment losses.

(h) Changes in accounting policy and disclosure

(i) New and amended standards adopted by the Company:

- No new or amended standards adopted by the Company in the current period.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

- No new or amended standards upcoming for the Company in the current period.

5. EXPLORATION AND EVALUATION ASSETS

($)	
Balance at December 31, 2020	6,800,470
Additions	46,741
Balance at March 31, 2021	6,847,211

Exploration and evaluation assets consist of the Company's undeveloped lands which are pending the determination of proved or probable reserves. Additions represent undeveloped land purchases and costs incurred on E&E assets during the period. As at March 31, 2021 and March 31, 2020 there were no indicators of impairment and, therefore, the Company did not perform an impairment test on exploration and evaluation assets.

6. LONG-TERM DEBT

Long-term debt is comprised as follows:

($)	
Balance at December 31, 2020	40,000
Additions	20,000
Balance at March 31, 2021	60,000

Long-term debt consists of a Canadian Emergency Business Account ("CEBA") loan obtained through CIBC. Under the loan agreement, the interest rate is 0% per year with no principal payments required. $20,000 (33.33%) of the $60,000 loan is eligible for complete forgiveness if $40,000 is fully repaid on or before December 31, 2022. If $40,000 cannot be repaid by December 31, 2022, the outstanding loan balance will be automatically converted into a three-year term loan, charging a fixed interest rate of 5% per year payable monthly. The loan does not contain any financial or non-financial covenants.

7. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value.

Three Months Ended March 31, 2021	Number of Shares	Amount ($)
Common Shares		
Balance at December 31, 2020	5,715,680	7,743,036

Equity issuance	0	0
Balance at March 31, 2021	5,715,680	7,743,036

Three Months Ended March 31, 2020	Number of Shares	Amount ($)
Common Shares		
Balance at December 31, 2019	5,715,680	7,743,036
Equity issuance	0	0
Balance at March 31, 2020	5,715,680	7,743,036

8. SHARE-BASED PAYMENTS

Stock Option Plan

Under this plan, directors and officers of the Company possess rights to acquire common shares. Options granted under this plan vest equally over a three-year period and expire ten years from the grant date. The fair market value of the January 1, 2020 options granted was determined using a volatility rate of 50% and a risk-free rate of 1.70%. The Company uses a fair value methodology to value the option grants.

The following tables summarize information about the Company's stock option plan:

Stock Options Outstanding	Number of Options	Weighted Average Exercise Price ($/Option)
Common Shares		
Balance at December 31, 2020	550,000	3.00
Stock Options Granted	-	-
Balance at March 31, 2021	550,000	3.00

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices ($/option)	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise price ($/option)	Number Exercisable	Weighted Average Exercise price ($/option)
3.00	550,000	8.75 Years	3.00	550,000	3.00

Share-based compensation:

The options outstanding for the period ended March 31, 2021 resulted in share-based compensation expensed of $76,949 (2019 – $89,781). Compensation expense associated with options granted under the plan is recognized in earnings over the vesting period of the plan with a corresponding increase in contributed surplus. The exercise of options is recorded as an increase in common shares with a corresponding reduction in contributed surplus.

9. FINANCIAL RISK MANAGEMENT

The Company is exposed to financial risks arising from its financial assets and liabilities. The financial risks include market risk (commodity prices, interest rates and foreign exchange rates), credit risk and liquidity risk.

(a) Market Risk

Market risk is the risk that the fair value of future cash flows of financial assets or liabilities will fluctuate due to movements in market prices and is comprised of the following:

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also world economic events that dictate the levels of supply and demand.

In the future, the Company may enter into various financial derivative forward sales contracts and physical sales contracts to protect its cash flow from operating activities. The Company's production is expected to be sold using "spot" or near-term contracts with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long-term, fixed price marketing contracts. The Company does not enter into commodity contracts other than to meet the Company's expected sale requirements.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. At March 31, 2021, the Company does not have any interest-bearing bank credit facilities and a one percent change in interest rates would have no impact on net earnings.

Currency Risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency; however, the United States dollar influences the price of petroleum and natural gas sold in Canada. The Company's financial assets and liabilities are not affected by a change in currency rates. The Company had no foreign exchange contracts in place at March 31, 2021 or 2020.

(b) Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. This credit exposure is mitigated with credit practices that limit transactions according to counterparties' credit quality. The Company does not currently have any trade receivables.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 9 – 12 months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Company has raised sufficient capital and prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary.

The financial liabilities on the statements of financial position include trade and other payables.

The following are the contractual maturities of financial liabilities, including estimated interest payments, excluding the impact of netting agreements, at March 31, 2021:

As at March 31, 2021 ($)	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1 – 2 Years	2 – 5 Years	More Than 5 Years
Trade and other payables	264,600	264,600	264,600	–	–	–

10. LOSS PER SHARE

Basic and diluted net loss per share have been calculated as follows:

	March 31, 2021	March 31, 2020
Net loss for net loss per share calculation	**(92,122)**	(116,310)
Weighted average number of common shares –basic & diluted	**5,715,680**	5,715,680

11. CHANGE IN NON-CASH WORKING CAPITAL

The following table presents the composition of changes in non-cash working capital and the allocation to operating and investing activities:

($)	**March 31, 2021**	March 31, 2020

Changes in non-cash working capital:		
Trade and other receivables	**(7,487)**	11,081
Deposits and prepaid expenses	**-**	1,399
Trade and other payables	**7,922**	28,856
Total changes in non-cash working capital	**435**	41,336
Changes in non-cash working capital related to:		
Operating activities	**2,435**	29,024
Investing activities	**(2,000)**	12,312
Total changes in non-cash working capital	**435**	41,336

12. RELATED PARTY TRANSACTIONS

During the period ended March 31, 2021, B-32 incurred $12,000 (2020 - $30,000) under a shared services agreement to a company owned by two of B-32's Directors. These payments were in the normal course of operations, were made on commercial terms and, therefore, were recorded at their fair value.