

# **B-32 EXPLORATION**



Dear fellow shareholders,

We are pleased to present our Q3 report and financial statements for the period ended September 30, 2019.

To facilitate the delivery of financial information, we have established a confidential portal on our website for our shareholders. By clicking on the link and using the username and password provided to you by email, you will be able to access our financial reports. For future quarterly and annual reports, we will upload to the website as soon as they have been approved by the board of directors.

On behalf of B-32 Exploration Ltd. ("B-32" or the "Company"), we are very pleased to take this opportunity to thank you for your support in our recent equity financing and your continued support going forward as we advance our world class light oil resource.

As mentioned previously, we are keeping our updates intentionally limited right now due to the sensitivity of operations. Once appropriate to do so, more detailed updates will be provided.

Sincerely yours,

Signed "Larry Evans"  
Larry Evans  
Executive Chairman

Signed "Brad Culver"  
Brad Culver  
President

# **B-32 EXPLORATION**



**2019 THIRD QUARTER  
FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019**

## STATEMENTS OF FINANCIAL POSITION

(unaudited)			
(\$)	Notes	September 30, 2019	December 31, 2018
<b>ASSETS</b>			
Cash		3,119,151	117,479
Trade and other receivables		9,477	8,442
Deposits and prepaid expenses		520	23,893
Total current assets		3,129,148	149,814
Exploration and evaluation assets	5	4,388,392	3,302,538
Total assets		7,517,540	3,452,352
<b>LIABILITIES</b>			
Trade and other payables		168,000	73,500
Total liabilities		168,000	73,500
<b>SHAREHOLDERS' EQUITY</b>			
Shareholder's capital	6	7,743,036	3,702,002
Deficit		(393,496)	(323,150)
Total equity		7,349,540	3,378,852
Total equity and liabilities		7,517,540	3,452,352

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 September 30,		Nine Months Ended September 30,	
(\$)	Notes	2019	2018	2019	2018
Consulting fees		<b>7,500</b>	7,605	<b>22,500</b>	10,649
Office and general		<b>15,083</b>	11,223	<b>45,899</b>	21,309
Professional fees		—	—	<b>1,955</b>	5,658
<b>EXPENSES</b>		<b>22,583</b>	18,828	<b>70,354</b>	37,616
<b>LOSS BEFORE FINANCE INCOME</b>		<b>(22,583)</b>	(18,828)	<b>(70,354)</b>	(37,616)
Finance income		—	—	<b>8</b>	—
<b>NET LOSS AND COMPREHENSIVE LOSS</b>		<b>(22,583)</b>	(18,828)	<b>(70,346)</b>	(37,616)
<b>NET LOSS PER SHARE</b>					
Basic & Diluted	8	—	(0.01)	<b>(0.02)</b>	(0.03)

See accompanying notes to the financial statements.

## STATEMENTS OF CHANGES IN EQUITY

(unaudited)					
(\$)	Notes	Number of Common Shares	Shareholders' Capital	Deficit	Total Equity
<b>BALANCE AT DECEMBER 31, 2018</b>		<b>3,702,002</b>	<b>3,702,002</b>	<b>(323,150)</b>	<b>3,378,852</b>
Net loss for the period		—	—	<b>(70,346)</b>	<b>(70,346)</b>
Common shares issued on financing	6	<b>2,013,678</b>	<b>4,041,034</b>	—	<b>4,041,034</b>
<b>BALANCE AT SEPTEMBER 30, 2019</b>		<b>5,715,680</b>	<b>7,743,036</b>	<b>(393,496)</b>	<b>7,349,540</b>
<b>BALANCE AT DECEMBER 31, 2017</b>		—	—	—	—
Net loss for the period		—	—	<b>(37,616)</b>	<b>(37,616)</b>
Common shares issued on financing	6	3,702,002	3,702,002	—	3,702,002
<b>BALANCE AT SEPTEMBER 30, 2018</b>		3,702,002	3,702,002	<b>(37,616)</b>	<b>3,664,386</b>

*See accompanying notes to the financial statements.*

## STATEMENTS OF CASH FLOWS

(unaudited)		Three Months Ended September 30,		Nine Months Ended September 30,	
(\$)	Notes	2019	2018	2019	2018
<b>OPERATING ACTIVITIES</b>					
Net loss for the period		<b>(22,583)</b>	(18,828)	<b>(70,346)</b>	(37,616)
Changes in operating non-cash working capital:					
Trade and other receivables		<b>(3,065)</b>	(3,263)	<b>(1,035)</b>	(3,265)
Deposits and prepaid expenses		<b>83,014</b>	(235,664)	<b>23,373</b>	(288,230)
Trade and other payables		<b>21,000</b>	83,634	<b>94,500</b>	93,213
Net cash flows from operating activities		<b>78,366</b>	(174,121)	<b>46,492</b>	(235,898)
<b>INVESTING ACTIVITIES</b>					
Additions to exploration and evaluation assets	5	<b>(122,283)</b>	(62,102)	<b>(1,085,854)</b>	(3,218,899)
Net cash flows used in investing activities		<b>(122,283)</b>	(62,102)	<b>(1,085,854)</b>	(3,218,899)
<b>FINANCING ACTIVITIES</b>					
Issuance of common shares	6	<b>3,041,034</b>	300,000	<b>4,041,034</b>	3,702,002
Net cash flows from financing activities		<b>3,041,034</b>	300,000	<b>4,041,034</b>	3,702,002
<b>CHANGE IN CASH DURING THE PERIOD</b>		<b>2,997,117</b>	63,777	<b>3,001,672</b>	247,205
<b>CASH BEGINNING OF THE PERIOD</b>		<b>122,034</b>	183,428	<b>117,479</b>	—
<b>CASH END OF THE PERIOD</b>		<b>3,119,151</b>	247,205	<b>3,119,151</b>	247,205

See accompanying notes to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

*For the three and nine months ended September 30, 2019, with comparative figures for 2018 (unaudited).*

*All amounts are stated in Canadian Dollars unless otherwise noted.*

### 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 and nine month periods ended September 30, 2019 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 October 23, 2019.

#### (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.

#### 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. The Company does not have any outstanding stock options or warrants.

(f) Changes in accounting policy and disclosure

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

- The Company adopted IFRS 16 "Leases", which replaces IAS 17 "Leases", on January 1, 2019. For lessees applying IFRS 16, a single recognition and measurement model for leases applies, with required recognition of assets ("right-of-use asset") and liabilities ("lease obligation") recognized on the balance sheet for contracts that are, or contain, a lease. The Company does not hold any leases and the change did not impact the Company's financial statements.

- (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, 2018	3,302,538
Additions	1,085,854
Balance at September 30, 2019	4,388,392

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.

At September 30, 2019, there were no indicators of impairment and, therefore, the Company did not perform an impairment test on exploration and evaluation assets.

## 6. SHARE CAPITAL

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

	Number of Shares	Amount (\$)
<b>Common Shares</b>		
Balance at December 31, 2018	3,702,002	3,702,002
Equity issuance	2,013,678	4,041,034
Balance at September 30, 2019	5,715,680	7,743,036

The Company closed a common share financing of \$1.00 million on June 10, 2019 and \$3.04 million on September 25, 2019. Both financings consisted entirely of cash.

There are no options or warrants outstanding.

## 7. 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 September 30, 2019, the Company does not have 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 September 30, 2019 or 2018.

### (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 September 30, 2019:

As at September 30, 2019	(\$)	Carrying Amount	Contractual Cash Flows	Less than 1 Year	1 – 2 Years	2 – 5 Years	More Than 5 Years
Trade and other payables		168,000	168,000	168,000	–	–	–

## **8. LOSS PER SHARE**

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

	September 30, 2019	September 30, 2018
Net loss for net loss per share calculation	(70,346)	(37,616)
Weighted average number of common shares – basic & diluted	4,138,200	1,080,206

## **9. RELATED PARTY TRANSACTIONS**

As of September 30, 2019, B-32 incurred \$90,000 (2018 - \$40,000) for consulting services to a consulting firm of which B-32's President is the owner and incurred \$90,000 (2018 - \$40,000) 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.