SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)
(an exploration stage company)

CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(Unaudited – Prepared by Management)
(In Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED – PREPARED BY MANAGEMENT)
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

	Note	March 31, 2017	December 31, 2016
ASSETS			
Current			
Cash		$ 89,598	$ 190,719
Amounts receivable	4	6,672	14,382
Marketable securities	5	75,000	60,000
Prepaid expenses		1,788	3,826
Due from related party	12	225,599	243,099
Total current		398,657	512,026
Non-current			
Deposit		-	4,000
Investments	6	130,014	93,344
Exploration and evaluation assets	8	870,586	631,754
Total non-current		1,000,600	729,098
Total assets		$ 1,399,257	$ 1,241,124
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	9	$ 1,461,042	$ 1,563,845
Promissory note	10	300,000	100,000
Due to related parties	12	241,226	93,001
Total liabilities		2,002,268	1,756,846
Shareholders’ Equity (Deficiency)			
Share capital	13	21,078,517	21,078,517
Equity reserves	13	5,342,065	5,339,175
Shares subscribed	13	437,035	325,035
Accumulated other comprehensive income	6	56,633	20,566
Deficit		(27,517,261)	(27,279,015)
Total shareholders’ equity (deficiency)		(603,011)	(515,722)
Total liabilities and shareholders’ equity (deficiency)		$ 1,399,257	$ 1,241,124

Nature and Continuance of Operations (Note 1)
Contingencies and Commitments (Note 17)
Subsequent Event (Note 18)

Approved by the Board of Directors on May 23, 2017

“Stan Szary”
Director

“Stefan Szary”
Director

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

SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)
CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(UNAUDITED – PREPARED BY MANAGEMENT)
(EXPRESSED IN CANADIAN DOLLARS)

	Note	Three months ended March 31, 2017	2016
GENERAL AND ADMINISTRATIVE EXPENSES			
Accounting and auditing	12	$ 10,500	$ 10,500
Administration, office and rent		(1,446)	(8,628)
Advertising, promotion and public relations		17,669	56,168
Consulting		10,178	13,935
Filing fees		9,018	9,005
Insurance		2,038	2,013
Legal fees		1,200	(8,472)
Management fees	12	197,200	55,000
Share-based payments	12,13	2,890	75,341
Travel and accommodation		-	24,318
		(249,247)	(229,180)
Unrealized gain (loss) on marketable securities	5	15,000	(80,000)
Gain on settlement of accounts payable		-	120,293
Unrealized loss on investments		-	(39,871)
Write-off of exploration and evaluation assets	8	(3,999)	-
Loss for the period		(238,246)	(228,758)
Other comprehensive loss			
Unrealized gain on investments	6	36,067	-
Loss and comprehensive loss for the period		$ (202,179)	$ (228,758)
Basic and diluted loss per share		$ (0.00)	$ (0.00)
Weighted average number of shares outstanding		145,210,219	135,693,552

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

SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED – PREPARED BY MANAGEMENT)
(EXPRESSED IN CANADIAN DOLLARS)

	Three months ended March 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	$ (238,246)	$ (228,758)
Items not affecting cash:		
Share-based payments	2,890	75,341
Write-off of exploration and evaluation assets	3,999	-
Gain on settlement of accounts payable	-	(120,293)
Unrealized loss on investments	-	39,871
Foreign exchange loss (gain) on investments	(603)	6,196
Unrealized loss (gain) on marketable securities	(15,000)	80,000
Changes in non-cash working capital items:		
Accounts receivable	7,710	(102,413)
Due to/from related parties	165,725	(30,495)
Prepaid expenses	2,038	11,130
Accounts payable and accrued liabilities	14,633	(46,621)
Net cash used in operating activities	(56,854)	(316,042)
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares subscribed	112,000	-
Proceeds from promissory note	200,000	100,000
Exercise of warrants	-	850,000
Net cash provided by financing activities	312,000	950,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets	(360,267)	(924,598)
Deposit	4,000	-
Net cash used in investing activities	(356,267)	(924,598)
Change in cash	(101,121)	(290,640)
Cash, beginning of period	190,719	772,925
Cash, end of period	$ 89,598	$ 482,285

Supplemental disclosure with respect to cash flows (Note 16)

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

SATURN OIL & GAS INC. (FORMERLY SATURN MINERALS INC.)
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(UNAUDITED – PREPARED BY MANAGEMENT)
(EXPRESSED IN CANADIAN DOLLARS)

	Number of Shares	Share Capital	Share-based Payment Reserves	Warrant Reserves	Shares Subscribed	Accumulated Other Comprehensive Loss	Deficit	Total
Balance as at December 31, 2015	**134,360,219**	**$ 19,713,942**	**$ 5,155,887**	**$ 36,287**	**$ -**	**$ -**	**$ (22,062,751)**	**$ 2,843,365**
Share-based payments	-	-	75,341	-	-	-	-	75,341
Warrants exercised	5,000,000	850,000	-	-	-	-	-	850,000
Loss for the period	-	-	-	-	-	-	(228,758)	(228,758)
Balance as at March 31, 2016	**139,360,219**	**$ 20,563,942**	**$ 5,231,228**	**$ 36,287**	**$ -**	**$ -**	**$ (22,291,509)**	**$ 3,539,948**
Balance as at December 31, 2016	**145,210,219**	**$ 21,078,517**	**$ 5,302,888**	**$ 36,287**	**$ 325,035**	**$ 20,566**	**$ (27,279,015)**	**$ (515,722)**
Shares subscribed	-	-	-	-	112,000	-	-	112,000
Share-based payments	-	-	2,890	-	-	-	-	2,890
Unrealized gain on available-for-sale investments	-	-	-	-	-	36,067	-	36,067
Loss for the period	-	-	-	-	-	-	(238,246)	(238,246)
Balance as at March 31, 2017	**145,210,219**	**$ 21,078,517**	**$ 5,305,778**	**$ 36,287**	**$ 437,035**	**$ 56,633**	**$ (27,517,261)**	**$ (603,011)**

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Saturn Oil & Gas Inc. (formerly Saturn Minerals Inc.) (the "Company") was incorporated under the laws of British Columbia on August 16, 2001. The Company is in the business of acquiring, exploring, evaluating and developing economically viable energy and resource deposits in Canada. The Company's current focus is to advance the exploration of its coal and oil & gas properties in Eastern Saskatchewan and Western Manitoba.

The Company's head office and registered office address is Suite 600 - 890 West Pender Street, Vancouver, British Columbia, V6C 1J9. Effective May 3, 2004, the common shares of the Company were listed on the TSX Venture Exchange ("TSXV") and trade under the symbol "SMI".

Going concern of operations

These condensed interim financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going concern depends on its ability to raise adequate financing and to develop profitable operations. As at March 31, 2017, the Company has an accumulated deficit of $27,517,261 (December 31, 2016 - $27,279,015).

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, and other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In addition, management closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur.

As the Company is in the exploration and evaluation stage, the Company has not identified a known body of commercial grade mineral on any of its properties. The ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company identifying a commercial mineral body, to finance its exploration and evaluation costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the property. To date, the Company has not earned any revenues.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete their development, and future profitable production or disposition thereof.

These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The policies applied in these condensed interim financial statements are based on IFRS issued and effective as of March 31, 2017.

Basis of presentation

The condensed interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss and available-for-sale, which are stated at their fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. All dollar amounts presented are in Canadian dollars, which is the Company's functional currency, unless otherwise specified.

Use of estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

a) The recoverability of amounts receivable and due from related parties which is included in the statement of financial position;

b) The carrying value of the investment in exploration and evaluation costs and the recoverability of the carrying value which are included in the statement of financial position;

c) The determination of the fair value of stock options or warrants using stock pricing models requires the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants;

d) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values; and

2. BASIS OF PREPARATION (cont'd)

Use of estimates (cont'd)

e) Recorded costs of flow-through share premium liabilities reflect the premium received by the Company on the issue of flow-through shares. The premium is subject to measurement uncertainty and requires the Company to assess the value of non-flow-through shares. This determination is subjective and does not necessarily provide a reliable single measure of the fair value of the flow-through share premium liability.

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim financial statements include, but are not limited to, the following:

a) Going concern of operations; and

b) Determination of categories of financial assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2016. These condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2016.

New accounting standards and interpretation

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its condensed interim financial statements.

Effective (proposed) for annual periods beginning on or after January 1, 2018:

IFRS 9, Financial Instruments – Classification and Measurement. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

IFRS 15 – Revenue from Contracts with Customers. IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

IFRS 16 – Leases. According to IFRS 16, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019.

(EXPRESSED IN CANADIAN DOLLARS)

4. AMOUNTS RECEIVABLE

As at March 31, 2017, the Company had GST receivable in the amount of $6,672 (December 31, 2016 - $14,382).

5. MARKETABLE SECURITIES

		Shares
Balance, December 31, 2015	$	122,500
Change in fair value		(62,500)
Balance, December 31, 2016		60,000
Change in fair value		15,000
Balance, March 31, 2017	$	75,000

During the year ended December 31, 2015, the Company received 500,000 shares of Glacier Lake Resources Inc. (formerly Killdeer Minerals Inc.), a company related through common officers and directors for settlement of $37,500 of debt. Unrealized gains and losses on market fluctuations for the shares are recognized in profit or loss.

6. INVESTMENTS

		March 31, 2017		**December 31, 2016**
Global Resources Investment Trust – cost	$	1,300,000	$	1,300,000
Fair value adjustment		(1,200,811)		(1,196,294)
Cumulative foreign exchange gain (loss) associated with fair value adjustment		30,825		(10,362)
	$	130,014	$	93,344

During the year ended December 31, 2014, the Company acquired 704,301 shares of Global Resources Investment Trust ("GRIT") valued at £1.00 each, in consideration for 10,000,000 units of the Company valued at $0.13 each. The GRIT shares trade through the facilities of the London Stock Exchange. Each unit consists of one common share and one-half common share purchase warrant exercisable at $0.17 per share for two years.

On acquisition, the GRIT shares were valued at $1,300,000. The GRIT shares have been designated as available-for-sale and are recorded at fair value. Fair value is determined by reference to the last bid price at the date of the statement of financial position. At December 31, 2015, the Company impaired the GRIT shares as a result of the significant and prolonged decline in fair value and $1,216,860 was transferred from OCI to profit or loss. During the period ended March 31, 2017, unrealized gains and losses on market fluctuations for the shares are recognized in equity and accordingly the Company recorded an unrealized gain on investments of $36,067 (March 31, 2016 – unrealized loss on investments of $39,871).

7. EXPLORATION ADVANCES

As at March 31, 2017, the Company has an exploration advance related to the Bannock Creek property in the amount of $Nil (December 31, 2016 - $Nil).

8. EXPLORATION AND EVALUATION ASSETS

Although the Company has taken steps to verify title to mineral exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

a) Overflowing

The Company's 100% owned Overflowing property consists of contiguous Quarry Leases ("Leases") located in the province of Manitoba. The Leases entail an annual rental of $27 per hectare. During the year ended December 31, 2016, the Company paid $10,449 for the annual rental fees.

b) Bannock Creek

During fiscal 2011, the Company submitted a successful bid for a Petroleum & Natural Gas Exploration Permit ("Bannock Creek") during the Lands Sale held by the Saskatchewan Ministry of Energy & Resources.

In November 2012, the Company entered into an agreement, subsequently amended, with Vector Exploration Corp. for exploration and development of the Company's Little Swan and Bannock Creek oil & gas properties. During the year ended December 31, 2015, the Company was granted a permit to drill an oil well at its Bannock Creek Property. During the year ended December 31, 2016, the Company paid $41,667 to acquire additional sections of oil & gas exploration permits.

During the year ended December 31, 2016, the Company decided not to pursue the property and accordingly wrote off all related exploration and evaluation expenditures in the amount of $4,245,676 to operations.

During the period ended March 31, 2017, the Company wrote off exploration and evaluation expenditures in the amount of $3,999 to operations.

c) Gem

Pursuant to an agreement dated April 20, 2005, subsequently amended, the Company has acquired a 100% interest in the Apex 3 and 4 mineral claims located in the New Westminster Mining Division, British Columbia; subject to a net smelter return royalty ("NSR") of 1%. The Company has the right to acquire 0.5% of the NSR for $1,000,000.

8. EXPLORATION AND EVALUATION ASSETS (cont'd)

d) Little Swan

In 2010, the Company submitted a successful bid for a Petroleum & Natural Gas Exploration Permit ("Little Swan"), located near the town of Hudson Bay, Saskatchewan during the Lands Sale held by the Saskatchewan Ministry of Energy & Resources. The bid was submitted by the Company in conjunction with Gulf Shores Resources Ltd (25% interest) and a privately owned Canadian oil company (25% interest) (collectively, the "Partners"). The Little Swan Project granted its owners an exclusive right to explore for petroleum and natural gas within permit boundaries.

In November 2012, the Company entered into an agreement, subsequently amended, with a private, Calgary based oil & gas company, Vector Exploration Corp. for exploration and development of the Company's Little Swan and Bannock Creek oil & gas properties ("the Properties").

During the year ended December 31, 2014, the Company further amended the existing Farm-In Agreement with Vector for oil & gas permits EP-71 and EP-72 (the "Little Swan" and "Bannock Creek" properties). Under the terms of a new Joint-Operating Agreement, both the Company and Vector would each retain a 50% working interest in both projects.

During the year ended December 31, 2014, the Company entered into an agreement, subsequently amended with Bayhorse Silver Inc. ("Bayhorse") whereby Bayhorse could earn 50% of the Company's 50% interest in the EP-71 (Little Swan).

During the year ended December 31, 2015, the Company received a total amount of $230,000 from Bayhorse.

During the year ended December 31, 2015, the Company decided not to pursue the property and accordingly wrote off all related exploration and evaluation expenditures in the amount of $988,327 to operations.

e) Lucky Hills

During the period ended March 31, 2017, the Company paid $236,065 to acquire the Lucky Hills oil property in the greater Kindersley area of Saskatchewan.

(EXPRESSED IN CANADIAN DOLLARS)

8. EXPLORATION AND EVALUATION ASSETS (cont'd)

	Lucky Hills	Overflowing	Bannock Creek	Gem	Period ended March 31, 2017	Year ended December 31, 2016
Beginning balance	$ -	$ 594,350	$ -	$ 37,404	$ 631,754	$ 2,090,379
Expenditures during the period:						
Acquisition costs	236,065	-	-	-	236,065	41,667
Assaying	-	-	-	-	-	4,635
Consulting	2,700	-	-	-	2,700	93,823
Drilling	-	-	-	-	-	2,311,097
Environmental	-	-	-	-	-	660
Field labour	-	-	-	-	-	3,719
Geology	-	-	3,999	-	3,999	66,604
Geophysics	-	-	-	-	-	2,218
Helicopter	-	-	-	-	-	25,537
Land rental	-	-	-	-	-	10,449
Licensing	-	-	-	-	-	98,303
Surface Access	-	-	-	-	-	6,740
Travel and accommodation	67	-	-	-	67	16,350
Vehicle and equipment	-	-	-	-	-	105,249
	238,832	-	3,999	-	242,831	2,787,051
Write-off of exploration and evaluation assets	-	-	(3,999)	-	(3,999)	(4,245,676)
Ending balance	$ 238,832	$ 594,350	$ -	$ 37,404	$ 870,586	$ 631,754

(EXPRESSED IN CANADIAN DOLLARS)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2017	December 31, 2016
Accounts payable	$ 1,418,617	$ 1,524,270
Accrued liabilities	35,000	35,000
Interest payable	7,425	4,575
	$ 1,461,042	$ 1,563,845

During the year ended December 31, 2016, the Company settled certain accounts payable with its suppliers and accordingly recorded a gain on settlement of accounts payable of $63,529.

10. PROMISSORY NOTE

During the year ended December 31, 2016, the Company received proceeds from a promissory note of $100,000 from a third party. The promissory note bears an interest of 5% per annum and is payable on January 31, 2017 (not paid).

During the period ended March 31, 2017, the Company received additional proceeds of $200,000 from the third party. The promissory note is secured by the Company's marketable securities and investments.

During the period ended March 31, 2017, the Company accrued interest of $7,425 and is included in accounts payable and accrued liabilities.

11. FLOW-THROUGH SHARE PREMIUM LIABILITY

During the year ended December 31, 2016, the Company issued 5,500,000 flow-through shares and estimated the value of the flow-through premium associated with those shares to be $Nil. In all the years, the Company incurred all obligated expenditures on the flow-through shares.

(EXPRESSED IN CANADIAN DOLLARS)

12. RELATED PARTY TRANSACTIONS

During the period ended March 31, 2017, the Company incurred the following transactions with directors, officers and other key management personnel:

	Three months ended March 31, 2017	2016
Accounting	$ 10,500	$ 10,500
Management fees	197,200	55,000
Geological services recorded in exploration and evaluation assets	4,000	-
Share-based payments	-	25,466
Total	$ 211,700	$ 90,966

As at March 31, 2017, the Company owed $241,226 (December 31, 2016 - $93,001) to its directors, officers, other key management personnel of the Company, and companies controlled by officers of the Company. As at March 31, 2017, the Company advanced $225,599 (December 31, 2016 - $243,099) to an officer and director of the Company.

13. SHARE CAPITAL AND EQUITY RESERVES

Authorized

Unlimited common shares without par value.

During the period ended March 31, 2017, the Company:

a) Received $112,000 of subscription proceeds in relation to the private placement announced during the year ended December 31, 2016.

During the year ended December 31, 2016, the Company:

a) Issued 5,350,000 common shares for proceeds of $902,500 as a result of the exercise of warrants.

b) Closed a flow-through private placement for 5,500,000 flow-through units at a price of $0.09 per unit (the "FT Unit") for a gross value of $495,000. Each FT Unit consists of one flow-through common share (the "FT Shares") and 0.3636 non flow-through share purchase warrants (the "FT Warrants"). Each FT Warrant will entitle the holder to purchase one additional non flow-through common share, exercisable at a price of $0.15 per share for a period of 18 months from the date of issue of the FT Warrant. The FT Warrants are subject to an accelerated expiry clause. The Company paid $32,925 of cash share issuance costs in relation to the private placement.

c) Announced a private placement of up to 40,000,000 units (the "Units") at a price of $0.08 per Unit for gross proceeds of up to $4,000,000. Each Unit consists of one common share (the "Shares") and one-half of a share purchase warrant (the "Warrants"). Each whole Warrant will entitle the holder to purchase one additional common share, exercisable at a price of $0.15 per share for a period of 18 months from the date of issue of the Warrant. The Warrants are subject to an accelerated expiry clause. During the year ended December 31, 2016, the Company received proceeds of $325,035 in relation to this proposed private placement.

(EXPRESSED IN CANADIAN DOLLARS)

13. SHARE CAPITAL AND EQUITY RESERVES (cont'd)

Share Purchase Warrants

Warrant transactions are summarized as follows:

	Outstanding Warrants	Weighted Average Exercise Price
Balance, December 31, 2015	20,042,827	$ 0.22
Granted	1,999,800	0.15
Exercised	(5,350,000)	0.17
Expired	(10,107,827)	0.25
Balance, December 31, 2016	6,584,800	0.20
Expired	(2,085,000)	0.30
Balance, March 31, 2017	4,499,800	$ 0.15

As at March 31, 2017, the following share purchase warrants were issued and outstanding:

Expiry Date	Outstanding Warrants	Exercise Price
June 12, 2017	2,500,000	$ 0.15
January 27, 2018	1,999,800	$ 0.15
	4,499,800	

Stock OptionsThe Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 16,456,650 common shares of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's stock on the grant date. The options can be granted for a maximum term of 5 years. The options granted vest as to 25% on the date of grant and 12.5% at the end of every quarter after the grant date. Vesting is determined by the Board of Directors. A summary of changes of stock options outstanding is as follows:

	Outstanding Options	Weighted Average Exercise Price
Balance, December 31, 2015	15,530,000	$ 0.18
Granted	500,000	0.15
Forfeited/expired	(3,856,000)	0.17
Balance, December 31, 2016	12,174,000	0.18
Forfeited/expired	(1,019,000)	0.20
Balance, March 31, 2017	11,155,000	$ 0.18
Exercisable, March 31, 2017	11,011,250	$ 0.18

(EXPRESSED IN CANADIAN DOLLARS)

13. SHARE CAPITAL AND EQUITY RESERVES (cont'd)

Stock Options (cont'd)

As at March 31, 2017, the following options were issued and outstanding:

Expiry Date	Outstanding Options	Exercise Price
September 15, 2017	1,005,000	$ 0.20
January 22, 2019	4,500,000	$ 0.15
February 24, 2020	3,000,000	$ 0.20
May 7, 2020	2,000,000	$ 0.20
December 11, 2020	150,000	$ 0.20
January 29, 2021	500,000	$ 0.15
	11,155,000	

During the period ended March 31, 2017, the Company granted Nil (2016 – 500,000) stock options with an initial fair market value of $Nil (2016 - $41,166) or $Nil (2016 - $0.08) per option. The Company expensed $Nil (2016 - $18,869) to operations for the options vesting during the period ended March 31, 2017 with the balance of $2,890 (2016 - $56,472) pertaining to the prior year's grants of stock options. The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	2017	2016
Risk-free interest rate	-	0.67%
Expected life of option	-	5 years
Expected dividend yield	-	0%
Expected stock price volatility	-	109.74%

14. FINANCIAL INSTRUMENTS

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk, interest rate risk and price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

a) Capital management

The Company manages its capital to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise.

The Company considers the items included in share capital as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or return capital to shareholders. As at March 31, 2017, the Company is not subject to externally imposed capital requirements.

14. FINANCIAL INSTRUMENTS (cont'd)

b) 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 is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. As at March 31, 2017, the Company had $89,598 (December 31, 2016 - $190,719) in cash and $2,002,268 (December 31, 2016 - $1,756,846) in current liabilities. The Company is exposed to liquidity risk.

c) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

d) Currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company's investment financial asset is trading on the London Stock Exchange in British pounds (£) and could result in gains or losses on foreign exchange. The Company also continuously monitors GRIT share trading prices.

e) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and permit deposits. There is a minimal risk that the Company would recognize any loss as a result of change in market interest rates.

f) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The ability of the Company to explore its resource properties and future profitability of the Company are directly related to the market price of commodities. The Company monitors commodity and equity prices to determine appropriate actions to be undertaken.

14. FINANCIAL INSTRUMENTS (cont'd)

g) Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of cash, marketable securities and investments are measured based on level 1 inputs of the fair value hierarchy.

The estimated fair value of due from and to related parties, accounts payable, and promissory note is equal to their carrying values due to the short-term nature of these instruments.

15. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in Canada in one business segment being the acquisition and exploration of resource properties.

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company's significant non-cash transactions during the period ended March 31, 2017 were as follows:

a) Included in exploration and evaluation assets is $1,121,604 which relates to accounts payable and accrued liabilities.

The Company's significant non-cash transactions during the period ended March 31, 2016 were as follows:

a) Included in exploration and evaluation assets is 1,334,535 which relates to accounts payable and accrued liabilities.

b) Reallocated $181,936 from exploration advances to exploration and evaluation assets.

17. CONTINGENCIES AND COMMITMENTS

The Company has entered into a consulting agreement with a director and officer of the Company at a cost of $120,000 per annum.

The agreement will continue indefinitely, subject to the termination notice given by either party. The Company must provide 3-month's written notice for termination but reserves the right to waive such notice upon paying the fees which would have accrued during the 12-month period.

Should the Company be subject to a change in control and terminate the agreement, the engagement will terminate immediately and the Company will be required to pay an amount equal to 12-month's fees calculated based on the average annual salary over the previous three years.

18. SUBSEQUENT EVENT

Subsequent to the period ended March 31, 2017, the Company:

a) Granted 10,000,000 stock options with an exercise price of $0.08 per common share to certain directors of the company. The options are exercisable until April 17, 2022, and vest over a period of 18 months from the date of grant.