

Gatling Exploration Inc.

Condensed Interim Financial Statements

Nine Months Ended December 31, 2019

(Unaudited – Expressed in Canadian Dollars)

Gatling Exploration Inc.

Nine Months Ended December 31, 2019

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Condensed Interim Financial Statements

Notice of No Auditor Review

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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 condensed interim financial statements, they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed 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 condensed interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of condensed interim financial statements by an entity's auditor.

February 28, 2020

Gatling Exploration Inc.
Condensed Interim Statements of Financial Position
(Unaudited – Expressed in Canadian Dollars)

	December 31, 2019	March 31, 2019
Assets		
Current		
Cash and cash equivalents	\$ 917,212	\$ 8,003,294
Receivables (note 12)	306,737	91,622
Prepaid expenses (note 12)	297,753	401,755
	1,521,702	8,496,671
Non-current		
Deposits	-	155,387
Property, plant and equipment (note 7)	163,367	447
Right-of-use asset (note 9)	409,779	-
	\$ 2,094,848	\$ 8,652,505
Liabilities		
Current		
Accounts payable and accrued liabilities (note 12)	\$ 535,877	\$ 110,759
Lease obligation – current portion (note 10)	141,051	-
Other liabilities (note 11)	-	418,533
	676,928	529,292
Non-current		
Lease obligation (note 10)	290,651	-
	967,579	529,292
Shareholders' Equity		
Share Capital (note 13)	13,088,741	12,378,787
Share-based Payments Reserve (note 13)	1,215,957	1,213,212
Deficit	(13,177,429)	(5,468,786)
	1,127,269	8,123,213
	\$ 2,094,848	\$ 8,652,505

Going Concern (note 2)

Commitments (note 15)

Subsequent Events (note 16)

Approved on behalf of the Board:

<i>"Richard Boulay"</i>	<i>"Nav Dhaliwal"</i>
..... Director Director
Richard Boulay	Nav Dhaliwal

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

Gatling Exploration Inc.
Condensed Interim Statements of Comprehensive Loss
(Unaudited – Expressed in Canadian Dollars)

	Three Months Ended December 31, 2019	Three Months Ended December 31, 2018	Nine Months Ended December 31, 2019	151 Days Ended December 31, 2018
Expenses				
Consulting fees (note 12)	\$ 199,236	\$ 106,197	\$ 466,052	\$ 121,697
Depreciation (notes 7 and 9)	44,287	-	128,421	-
Exploration and evaluation expenditures (notes 8 and 12)	2,444,912	148,500	5,849,651	2,514,698
Foreign exchange loss	2,509	-	3,458	-
General exploration	-	-	79,110	-
Lease interest accretion (note 10)	13,148	-	42,263	-
Management fees (note 12)	95,000	245,000	185,000	245,000
Office and general (note 12)	66,583	17,489	153,018	17,735
Professional fees (note 12)	38,431	93,585	153,100	93,630
Rent (recovery) (note 12)	(3,871)	9,000	4,387	9,000
Share-based payments (notes 12 and 13)	-	872,438	176,204	872,438
Shareholder communications and investor relations	232,574	54,407	742,526	61,232
Transfer agent and filings fees	33,598	16,521	42,775	52,785
Travel	96,244	7,447	277,896	7,447
Loss Before Other Items	(3,262,651)	(1,570,584)	(8,303,861)	(3,995,662)
Other Items				
Other income (note 11)	41,977	5,987	418,533	5,987
Part XII.6 tax	(25,734)	-	(25,734)	-
Interest income	48,889	24,990	83,914	24,990
Net Loss and Comprehensive Loss for the Period	\$ (3,197,519)	\$ (1,539,607)	\$ (7,827,148)	\$ (3,964,685)
Basic and Diluted Loss Per Share	\$ (0.07)	\$ (0.04)	\$ (0.17)	\$ (0.16)
Weighted Average Number of Common Shares Outstanding – Basic and Diluted	47,620,940	36,206,323	47,436,113	25,137,942

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

Gatling Exploration Inc.
Condensed Interim Statements of Changes in Equity
(Unaudited – Expressed in Canadian Dollars)

	Share Capital		Share-based Payments Reserve	Deficit	Total
	Number of Shares	Share Capital			
Balance, August 2, 2018	-	\$ -	\$ -	\$ -	\$ -
Shares issued as part of the Arrangement (note 1)	33,426,512	9,359,423	-	-	9,359,423
Private placements	11,544,328	3,463,298	-	-	3,463,298
Share issue costs	500,000	(18,916)	-	-	(18,916)
Flow-through liability	-	(519,495)	-	-	(519,495)
Stock options granted	-	-	872,438	-	872,438
Shares issued on exercise of stock options	200,000	42,000	-	-	42,000
Transfer of stock option fair value on exercise	-	52,477	(52,477)	-	-
Net loss and comprehensive loss for period	-	-	-	(3,964,685)	(3,964,685)
Balance, December 31, 2018	45,670,840	12,378,787	819,961	(3,964,685)	9,234,063
Stock options granted	-	-	393,251	-	393,251
Net loss and comprehensive loss for period	-	-	-	(1,504,101)	(1,504,101)
Balance, March 31, 2019	45,670,840	12,378,787	1,213,212	(5,468,786)	8,123,213
Shares issued for exploration and evaluation expenditures (note 8)	1,750,000	595,000	-	-	595,000
Stock options granted	-	-	176,204	-	176,204
Shares issued on exercise of stock options	200,000	60,000	-	-	60,000
Transfer of stock option fair value on exercise	-	54,954	(54,954)	-	-
Transfer of stock option fair value on expiry	-	-	(118,505)	118,505	-
Net loss and comprehensive loss for period	-	-	-	(7,827,148)	(7,827,148)
Balance, December 31, 2019	47,620,840	\$ 13,088,741	\$ 1,215,957	\$ (13,177,429)	\$ 1,127,269

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

Gatling Exploration Inc.
Condensed Interim Statements of Cash Flows
(Unaudited – Expressed in Canadian Dollars)

	Nine Months Ended December 31, 2019	151 Days Ended December 31, 2018
Operating Activities		
Net loss for the period	\$ (7,827,148)	\$ (3,964,685)
Items not involving cash		
Depreciation	128,421	-
Shares issued for exploration and evaluation expenditures	595,000	2,359,423
General exploration	79,111	-
Lease interest accretion	42,263	-
Share-based payments	176,204	872,438
Other income	(418,533)	(5,987)
Changes in non-cash working capital		
Receivables	(207,776)	(42,899)
Prepaid expenses	104,002	(245,310)
Accounts payable and accrued liabilities	425,118	108,274
Cash Used in Operating Activities	(6,903,338)	(918,746)
Investing Activities		
Deposits	-	(155,884)
Purchase of equipment	(107,153)	-
Cash Used in Investing Activities	(107,153)	(155,884)
Financing Activities		
Payments of lease obligation	(135,591)	-
Shares issued for cash	60,000	3,505,298
Share issuance costs	-	(18,916)
Cash received as a result of the Arrangement	-	7,000,000
Cash Provided by (Used in) Financing Activities	(75,591)	10,486,382
Inflow (Outflow) of Cash and Cash Equivalents	(7,086,082)	9,411,752
Cash and Cash Equivalents, Beginning of Period	8,003,294	-
Cash and Cash Equivalents, End of Period	\$ 917,212	\$ 9,411,752
Cash and Cash Equivalents		
Cash	\$ 201,352	\$ 886,762
Term deposits	715,860	8,524,990
	\$ 917,212	\$ 9,411,752
Supplemental Disclosure with Respect to Cash Flows		
Income tax paid	\$ -	\$ -
Interest received	\$ 83,914	\$ 24,990
Non-cash financing activity		
Fair value of shares issued for exploration and evaluation	\$ 595,000	\$ 2,359,423

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

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2019
(Unaudited – Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Gatling Exploration Inc. (the “Company”) is an exploration stage company incorporated on August 2, 2018, under the laws of the province of British Columbia, Canada. Its principal business activity is the acquisition, exploration and evaluation of mineral properties located in the province of Ontario, Canada. The Company’s common shares are traded on the TSX Venture Exchange under the symbol “GTR”. The Company’s shares also trade on the OTC Exchange in the United States under the symbol “GATGF”. The Company’s head office and principal business address is 1680 – 200 Burrard Street, Vancouver, British Columbia, Canada, V6C 3L6. The Company’s registered and records office is 400 – 725 Granville Street, Vancouver, British Columbia, Canada, V7Y 1G5.

On September 24, 2018, Bonterra Resources Inc. (“Bonterra”) completed a plan of arrangement (the “Arrangement”) whereby Bonterra spun out its Larder Lake Project assets of \$2,359,423 and cash of \$7,000,000 in order to create a new exploration company (the Company), by way of plan of arrangement under the *Business Corporations Act* (British Columbia). Each holder of common shares of Bonterra received one common share of the Company for each seven common shares of Bonterra held. The Company issued 33,426,512 common shares at a fair value of \$9,359,423.

2. GOING CONCERN

These condensed interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company’s ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its exploration and evaluation projects when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation projects or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These condensed interim financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed interim financial statements.

3. BASIS OF PREPARATION

a) Statement of compliance

The condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The condensed interim financial statements of the Company should be read in conjunction with the Company’s March 31, 2019 audited financial statements, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

These condensed interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on February 28, 2020.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2019
(Unaudited – Expressed in Canadian Dollars)

3. BASIS OF PREPARATION (Continued)

b) Basis of measurement

These condensed interim financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the significant accounting policies (note 4). These condensed interim financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

4. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in note 4 to the audited financial statements for the 241 days ended March 31, 2019, except for the Company's accounting policies for property, plant and equipment and leases.

a) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The residual value, useful life and depreciation method are evaluated every reporting period and changes to the residual value, estimated useful life or depreciation method resulting from such review are accounted for prospectively. Depreciation is provided for at the following rates per annum:

Camp and infrastructure	Straight-line over 10 years
Computer equipment	30% declining-balance
Equipment	20% declining-balance
Leasehold improvements	Straight-line over lease term

b) Leases

Initial adoption

On April 1, 2019, the Company adopted IFRS 16 *Leases*. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019.

The Company has elected to apply IFRS 16 using a modified retrospective approach, which does not require restatement of prior period financial information. Modified retrospective application recognizes the cumulative effect of IFRS 16 as an adjustment to opening deficit at April 1, 2019 and applies the standard prospectively. The Company has determined that at April 1, 2019, adoption of IFRS 16 resulted in the recognition of a right-of-use ("ROU") asset of \$525,030 and a lease obligation of \$525,030, of which \$171,795 is the current portion.

On transition to IFRS 16 under the modified retrospective approach, lease payments are discounted using the Company's incremental borrowing rate as of April 1, 2019. The Company used an estimated incremental borrowing rate of 12% to measure the present value of the future lease payments on April 1, 2019.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2019
(Unaudited – Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Leases (continued)

Ongoing recognition and measurement

On the date that the leased asset becomes available for use, the Company recognizes a ROU asset and a corresponding lease obligation. Interest expense associated with the lease obligation is charged to the statement of income/loss over the lease period with a corresponding increase to the lease obligation. The lease obligation is reduced as payments are made against the principal portion of the lease. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation of the ROU asset is recognized in depreciation expense.

ROU assets and lease obligations are initially measured on a present value basis. Lease obligations are measured as the net present value of the lease payments, which may include: fixed lease payments, variable lease payments that are based on an index or a rate, and amounts expected to be payable under residual value guarantees and payments to exercise an extension or termination option, if the Company is reasonably certain to exercise either of those options. ROU assets are measured at cost, which is comprised of the amount of the initial measurement of the lease obligation, less any incentives received, plus any lease payments made at, or before, the commencement date and initial direct costs and asset restoration costs, if any. The rate implicit in the lease is used to determine the present value of the liability and ROU asset arising from a lease, unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used.

Refer to notes 5(c), 9 and 10 for further details on the Company's leasing activities.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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 comprehensive income/loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next fiscal year are discussed below.

a) Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties 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.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
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(Unaudited – Expressed in Canadian Dollars)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

b) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability, including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

c) Going concern risk assessment

The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its exploration and evaluation projects when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation assets or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These condensed interim financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed interim financial statements.

Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the condensed interim financial statements.

a) Decommissioning liabilities

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made that management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs, which will reflect the market condition at the time the rehabilitation costs are actually incurred.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2019
(Unaudited – Expressed in Canadian Dollars)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

a) Decommissioning liabilities (continued)

The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for. As at December 31, 2019, the Company has no known rehabilitation requirements, and accordingly, no provision has been made.

b) Fair value of stock options granted

The Company uses the Black-Scholes option pricing model to value the stock options granted during the year. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates that are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values.

c) Leases

Lease obligations that are recognized at December 31, 2019 have been estimated using a 12% discount rate based on the cost of borrowing for debt instruments of comparable terms for companies with a comparable investment grade to the Company. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

6. FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash and cash equivalents are classified as fair value through profit or loss; receivables, as amortized cost; and accounts payable and accrued liabilities and lease obligation, as amortized cost. The carrying values of these instruments approximate their fair values due to their short term to maturity.

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

December 31, 2019	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 917,212	\$ -	\$ -	\$ 917,212
March 31, 2019	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,003,294	\$ -	\$ -	\$ 8,003,294

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2019
(Unaudited – Expressed in Canadian Dollars)

6. FINANCIAL INSTRUMENTS (Continued)

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash and cash equivalents, by placing at major Canadian financial institutions. The Company has minimal credit risk. Of the receivables balance, \$272,087 (March 31, 2019 - \$91,622) is owing from the Canada Revenue Agency.

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's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of December 31, 2019 equal \$967,579 (March 31, 2019 - \$110,759); \$546,553 (March 31, 2019 - \$110,759) of the liabilities presented as accounts payable and lease obligation – current portion are due within 30 days of the reporting date.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital.

i) Currency risk – The Company has no funds held in a foreign currency and only a small amount of its accounts payable and accrued liabilities is denominated in US dollars. A fluctuation in the exchange rates between the Canadian and US dollars of 10% would result in a nominal change to the Company's accounts payable and accrued liabilities and foreign exchange gain or loss. The Company does not use any techniques to mitigate currency risk.

ii) Interest rate risk – Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash and cash equivalents is at nominal interest rates, and therefore, the Company does not consider interest rate risk to be significant. The Company has no interest-bearing financial liabilities.

iii) Other price risk – Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not exposed to significant other price risk.

d) Capital management

The Company considers its capital to be comprised of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2019
(Unaudited – Expressed in Canadian Dollars)

6. FINANCIAL INSTRUMENTS (Continued)

d) Capital management (continued)

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the nine months ended December 31, 2019. The Company is not subject to externally imposed capital requirements.

7. PROPERTY, PLANT AND EQUIPMENT

	Camp and Infrastructure	Computer Equipment	Equipment	Leasehold Improvements	Total
Cost					
Balance, August 2, 2018	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	-	-	497	-	497
Balance, March 31, 2019	-	-	497	-	497
Additions	106,604	24,009	23,554	21,923	176,090
Balance, December 31, 2019	\$ 106,604	\$ 24,009	\$ 24,051	\$ 21,923	\$ 176,587
Depreciation					
Balance, August 2, 2018	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	-	-	50	-	50
Balance, March 31, 2019	-	-	50	-	50
Depreciation	3,552	2,701	2,102	4,815	13,170
Balance, December 31, 2019	\$ 3,552	\$ 2,701	\$ 2,152	\$ 4,815	\$ 13,220
Net book value, March 31, 2019	\$ -	\$ -	\$ 447	\$ -	\$ 447
Net book value, December 31, 2019	\$ 103,052	\$ 21,308	\$ 21,899	\$ 17,108	\$ 163,367

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
For the Nine Months Ended December 31, 2019
(Unaudited – Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION EXPENDITURES

Larder Lake Project

On September 24, 2018, as part of the Arrangement, the Company received a 100% interest in the Larder Lake Project, located in Ontario. A portion of the project includes a 1.5% net smelter return royalty (“NSR”), of which 1% may be repurchased by the Company for \$750,000. The Arrangement was deemed to be a purchase of an asset. As such, IFRS 2 *Share-based Payments* was used to determine fair value of the assets acquired. As the fair value of the assets given up to acquire the assets was more readily available, the Company valued the acquisition using the fair value of shares issued of \$0.28 per share. On September 24, 2018, the fair value of the assets acquired and liabilities assumed from Bonterra were as follows:

	Amount
Consideration provided (fair value of 33,426,512 common shares at \$0.28 per share)	\$ 9,359,423
Allocated to net assets acquired:	
Cash transferred from Bonterra	(7,000,000)
Fair value of Larder Lake Project acquired	(2,359,423)
	\$ -

Fair value of \$2,359,423 was allocated to the project and expensed for the period as exploration and evaluation costs.

On April 1, 2019, the Company entered into an assignment and assumption agreement to acquire the Kir Vit claim package in Ontario. Under the terms of the agreement, the Company took assignment of a January 2017 underlying agreement between the vendor and certain parties that originally staked the claims comprising Kir Vit (the “stakers”). In consideration of the assignment, the Company issued 1,750,000 common shares to the vendor valued at \$595,000.

On July 9, 2019, the Company exercised the option in the underlying agreement and made a cash payment of \$250,000 to the stakers. The vendor was granted a 0.5% NSR. The stakers retain a 2% NSR, of which the Company may repurchase one-half (1%) for \$1,000,000. If the Company announces a production decision, a \$4,000,000 payment is due to the vendor and a \$250,000 payment is due to the stakers.

Gatling Exploration Inc.
Notes to the Condensed Interim Financial Statements
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(Unaudited – Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

Larder Lake Project (continued)

Summaries of exploration and evaluation expenditures for the nine months ended December 31, 2019 and 241 days ended March 31, 2019 are as follows:

Nine Months Ended December 31, 2019	Larder Lake Project
Acquisition Costs	
Acquisition costs	\$ 845,000
Claim costs	72,360
Total Acquisition Costs	917,360
Property Exploration Costs	
Assays and geochemistry	675,357
Camp and other costs	326,015
Drilling	3,289,027
Geological	530,834
Geophysics	47,700
Travel and transport	63,358
Total Exploration Costs	4,932,291
Total Exploration and Evaluation Expenditures	\$ 5,849,651
<hr/>	
241 Days Ended March 31, 2019	Larder Lake Project
Acquisition Costs	
Fair value of Larder Lake Project acquired	\$ 2,359,423
Claim costs	41,751
Total Acquisition Costs	2,401,174
Property Exploration Costs	
Assays and geochemistry	16,038
Camp and other costs	26,605
Drilling	403,968
Geological	294,346
Travel and transport	2,772
Total Exploration Costs	743,729
Total Exploration and Evaluation Expenditures	\$ 3,144,903

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9. RIGHT-OF-USE ASSET

	ROU Asset	
Cost		
Balance, April 1, 2019 and December 31, 2019	\$	525,030
Depreciation		
Balance, April 1, 2019	\$	-
Depreciation		115,251
Balance, December 31, 2019	\$	115,251
Net book value, December 31, 2019	\$	409,779

10. LEASE OBLIGATION

	December 31, 2019	March 31, 2019
Balance, beginning of period (adoption of IFRS 16)	\$ 525,030	\$ -
Lease interest accretion	42,263	-
Lease payments	(135,591)	-
Balance, end of period	431,702	-
Current portion	(141,051)	-
Non-current portion	\$ 290,651	\$ -

11. OTHER LIABILITIES

Other liabilities consist of the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through share issuances.

	December 31, 2019	March 31, 2019
Balance, beginning of period	\$ 418,533	\$ -
Liability incurred on flow-through shares issued in November 2018	-	519,495
Settlement of flow-through share liability by incurring expenditures	(418,533)	(100,962)
Balance, end of period	\$ -	\$ 418,533

In November 2018, the Company issued 11,544,328 flow-through shares at a price of \$0.30 per share. The premium paid by investors was calculated as \$0.045 per share. Accordingly, \$519,495 was recorded as other liabilities.

At December 31, 2019, the Company did not have any remaining commitment to incur exploration expenditures in relation to its November 2018 flow-through financing (March 31, 2019 - \$2,790,219).

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12. RELATED PARTY TRANSACTIONS

These amounts of key management compensation are included in the amounts shown on the condensed interim statements of comprehensive loss:

	Nine Months Ended December 31, 2019	151 Days Ended December 31, 2018
Short-term compensation (consulting fees, exploration and evaluation expenditures, management fees and professional fees)	\$ 576,500	\$ 385,000
Share-based compensation	66,352	629,730
	\$ 642,852	1,014,730

During the nine months ended December 31, 2019, short-term compensation to related parties consisted of \$82,500 (151 days ended December 31, 2018 - \$47,500) in consulting fees, \$181,500 (151 days ended December 31, 2018 - \$45,000) in exploration and evaluation expenditures, \$185,000 (151 days ended December 31, 2018 - \$245,000) in management fees and \$82,500 (151 days ended December 31, 2018 - \$47,500) professional fees.

Transactions with related parties are included in the amounts shown on the condensed interim statements of comprehensive loss as follows:

	Nine Months Ended December 31, 2019	151 Days Ended December 31, 2018
Related company controlled by officer and director (consulting fees and office and general)	\$ 90,000	\$ 30,000
Related companies with common officers and directors (rent recovery)	\$ 80,000	\$ 9,000

As at December 31, 2019, the Company had receivables of \$34,650 (March 31, 2019 - \$nil) related to office rent recovery from companies with common officers and directors.

As at December 31, 2019, the Company had prepaid expenses of \$7,500 (March 31, 2019 - \$11,300) related to exploration expenses with a company controlled by a member of key management.

As at December 31, 2019, the Company had accounts payable of \$13,283 (March 31, 2019 - \$31,257) related to shared office and administrative expenses with a company controlled by an officer and director.

13. SHARE CAPITAL

- a) Authorized

Unlimited number of common voting shares without par value

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13. SHARE CAPITAL (Continued)

b) Issued and outstanding

During the nine months ended December 31, 2019

On April 12, 2019, the Company issued 1,750,000 common shares valued at \$595,000 for the Kir Vit claims (note 8).

During the nine months ended December 31, 2019, the Company issued 200,000 common shares for proceeds of \$60,000 on the exercise of 200,000 stock options. The value of the stock options of \$54,954 was transferred to share capital from share-based payments reserve upon exercise.

During the 241 days ended March 31, 2019

On September 21, 2018, the Company issued 33,426,512 common shares valued at \$9,359,423 as part of the Arrangement (notes 1 and 8).

On November 26, and 30, 2018, the Company closed private placements for gross proceeds of \$3,463,298 in two tranches. The Company issued 11,544,328 flow-through common shares of the Company at a price of \$0.30.

The premium paid by investors on the flow-through shares was calculated as \$0.045 per share. Accordingly, \$519,495 was recorded as other liabilities. The underwriters received 500,000 common shares valued at \$185,000. Additional share issue costs of \$18,916 were incurred.

During the 241 days ended March 31, 2019, the Company issued 200,000 common shares for proceeds of \$42,000 on the exercise of 200,000 stock options. The value of the stock options of \$52,477 was transferred to share capital from share-based payments reserve upon exercise.

c) Stock options

The Company has a stock option plan to grant incentive stock options to directors, officers, employees and consultants. Under the plan, the aggregate number of common shares that may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date, including options granted prior to the adoption of the plan. Options granted may not exceed a term of ten years, and the term will be reduced to one year following the date of death of the optionee. All options vest when granted unless they are otherwise specified by the Board of Directors or if they are granted for investor relations activities. Options granted for investor relations activities vest over a twelve-month period with no more than 25% of the options vesting in any three-month period.

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13. SHARE CAPITAL (Continued)

c) Stock options (continued)

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Nine Months Ended December 31, 2019		241 Days Ended March 31, 2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	4,525,000	\$ 0.25	-	-
Granted	400,000	\$ 0.49	4,725,000	\$ 0.24
Exercised	(200,000)	\$ 0.27	(200,000)	\$ 0.21
Expired	(450,000)	\$ 0.24	-	-
Outstanding, end of period	4,275,000	\$ 0.27	4,525,000	\$ 0.25

The weighted average share price on the date of exercise for the nine months ended December 31, 2019 was \$0.53 (241 days ended March 31, 2019 - \$0.45).

The following stock options were outstanding and exercisable at December 31, 2019:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding	Exercisable
October 15, 2021	1.79	\$ 0.21	2,725,000	2,725,000
February 13, 2022	2.12	\$ 0.33	1,000,000	1,000,000
February 27, 2022	2.16	\$ 0.31	250,000	250,000
August 1, 2022	2.59	\$ 0.39	100,000	100,000
September 16, 2022	2.71	\$ 0.58	200,000	200,000
	1.95		4,275,000	4,275,000

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. Accordingly, share-based payments of \$176,204 were recognized during the nine months ended December 31, 2019 (241 days ended March 31, 2019 - \$1,265,689).

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13. SHARE CAPITAL (Continued)

c) Stock options (continued)

The fair value of each stock option granted was calculated using the following weighted average assumptions:

	Nine Months Ended December 31, 2019	241 Days Ended March 31, 2019
Expected life (years)	3.00	3.00
Risk-free interest rate	1.50%	2.16%
Annualized volatility	167%	165%
Dividend yield	N/A	N/A
Stock price at grant date	\$ 0.51	\$ 0.31
Exercise price	\$ 0.49	\$ 0.24
Weighted average grant date fair value	\$ 0.44	\$ 0.27

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility and the volatility of a comparable company to estimate the volatility of the share price.

During the nine months ended December 31, 2019, the Company transferred \$54,954 (241 days ended March 31, 2019 - \$52,477) from the share-based payments reserve to share capital upon exercise of 200,000 (241 days ended March 31, 2019 - 200,000) stock options.

During the nine months ended December 31, 2019, the Company transferred \$118,505 (241 days ended March 31, 2019 - \$nil) from the share-based payments reserve to share capital upon expiry of 450,000 (241 days ended March 31, 2019 - nil) stock options.

14. SEGMENTED DISCLOSURE

The Company has one operating segment, being mineral exploration and development. All of the Company's assets are located in Canada.

15. COMMITMENTS

- a) The Company has entered into agreements with officers and directors that include termination and change of control clauses. In the case of termination without cause, the officers and directors are entitled to an amount equal to a multiple (ranging from one to two times) the annual base fee payable. In the case of a change of control, the officers and directors are entitled to an amount equal to a multiple (ranging from one to three times) the sum of the annual base fee and minimum incentive fee payable. As at December 31, 2019, the total annual base fee of the officers and directors under the agreements is \$540,000 and the total annual minimum incentive fee is \$60,000.

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15. COMMITMENTS (Continued)

- b) The Company has entered into an office sublease agreement that commenced March 1, 2019 and expires August 30, 2022 with remaining basic rent per fiscal year approximately as follows:

Fiscal 2020	\$	46,000
Fiscal 2021		186,000
Fiscal 2022		190,000
Fiscal 2023		80,000
	\$	502,000

16. SUBSEQUENT EVENTS

- a) Subsequent to December 31, 2019, 60,500 stock options were exercised for proceeds of \$12,705.