QUANTUM ENERGY INC.
Form 10-Q
January 14, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[x] Quarterly Report Pursuant to Section 13 Or 15(d) Of The Securities Exchange Act of 1934

For the quarterly period ended **November 30, 2018**

[ ] Transition Report Under Section 13 Or 15(d) Of The Securities Exchange Act of 1934

For the transition period ________ to ________

COMMISSION FILE NUMBER 333-225892

QUANTUM ENERGY, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA	**98-0428608**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
218 N. Jefferson, Suite 400	
Chicago, Illinois	**60661**
(Address of principal executive office)	(Postal Code)

(480) 734-0337

(Issuer's telephone number)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes [x]** No [ ]

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post filed). Yes **[X]** No [ ]

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "Accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [ ] Smaller Reporting Company **[x]**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] **No [x]**

As of **January 14, 2019** there were 48,491,485 Shares of issuer's common stock, $0.001 par value, issued and outstanding

1

Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUANTUM ENERGY, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	November 30, 2018	February 28, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$7,021	$19,864
Prepaid legal fees	—	37,500
TOTAL CURRENT ASSETS	7,021	57,364
Deposit on land purchase	7,822	7,822
TOTAL ASSETS	$14,843	$65,186
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$25,376	$19,339
Accounts payable and accrued liabilities, related parties	134,134	28,444
Promissory notes payable	7,980	2,980
Promissory notes payable, related party	64,300	4,300
TOTAL CURRENT LIABILITIES	231,790	55,063
LONG-TERM LIABILITIES:		
Common stock payable	—	152,198
TOTAL LONG-TERM LIABILITIES	—	152,198
TOTAL LIABILITIES	231,790	207,261
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred Stock, $.001 par value; 5,000,000 shares authorized, none issued and outstanding	—	—
Common Stock, $.001 par value; 495,000,000 shares authorized; 48,491,485 and 47,361,683 shares issued and outstanding, respectively	48,491	47,362
Additional paid-in capital	11,001,551	10,828,079
Accumulated deficit	(11,266,989)	(11,017,516)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(216,947)	(142,075)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$14,843	$65,186

The accompany notes are an integral part of these financial statements.

	For the three months ended November 30,		For the nine months ended November 30,	
	2018	2017	2018	2017
OPERATING EXPENSE				
Advertising and marketing	$—	$—	$—	$6,836
Management fees and compensation	—	—	5,131	—
Office and public company expense	8,468	6,710	30,659	18,760
Amortization of land purchase option agreements	—	—	—	120,032
Legal and professional fees	25,901	49,653	211,430	160,403
TOTAL OPERATING EXPENSES	34,369	56,363	247,220	306,031
LOSS FROM OPERATIONS	(34,369)	(56,363)	(247,220)	(306,031)
OTHER INCOME (EXPENSE)				
Interest expense	(433)	—	(433)	—
Foreign exchange gain (loss)	(30)	81	(1,820)	766
TOTAL OTHER INCOME (EXPENSE)	(463)	81	(2,253)	766
NET LOSS	$(34,832)	$(56,282)	$(249,473)	$(305,265)
Basic and diluted loss per share	$(0.00)	$(0.00)	(0.01)	(0.00)
Basic and diluted weighted average number shares outstanding	48,491,485	68,238,692	48,347,692	61,801,546

The accompany notes are an integral part of these financial statements.

	For the nine months ended	
	November 30, 2018	November 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(249,473)	$(305,265)
Adjustments to reconcile net loss to cash used by operating activities:		
Amortization of land purchase option agreements	—	120,033
Stock based compensation	5,131	—
Issuance of common shares for professional services	17,272	85,000
Changes in operating assets and liabilities:		
Accounts payable and accrued liabilities	6,037	45,726
Accounts payable and accrued liabilities, related parties	105,690	(11,990)
Prepaid legal fees	37,500	—
Net cash used by operating activities	(77,843)	(66,496)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of common stock	—	50,000
Proceeds from promissory note	5,000	—
Proceeds from promissory note, related party	60,000	—
Net cash provided by financing activities	65,000	50,000
Net decrease in cash and cash equivalents	(12,843)	(16,496)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	19,864	20,478
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$7,021	$3,982
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Common stock issued for common stock payable	$152,198	$—

The accompany notes are an integral part of these financial statements.

QUANTUM ENERGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018

NOTE 1 - NATURE OF OPERATIONS

QUANTUM ENERGY INC. (“the Company”) was incorporated under the name “Boomers Cultural Development Inc.” under the laws of the State of Nevada on February 5, 2004. On May 18, 2006, the Company changed its name to Quantum Energy, Inc.

The Company is a development stage diversified holding company with an emphasis in land holdings, refinery and fuel distribution.

The Company is domiciled in the Unites States of America and trades on the OTC market under the symbol QEGY.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company’s management, which is responsible for their integrity and objectivity. The accompanying unaudited financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, as well as the instructions to Form 10-Q. Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the accompanying unaudited financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of November 30, 2018, and its results of operations for the three and nine month periods ended November 30, 2018 and 2017, and cash flows for the nine month periods ended November 30, 2018 and 2017. The balance sheet at February 28, 2018, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements. All amounts presented are in U.S. dollars. For further information, refer to the financial statements as of and for the year ended February 28, 2018 and footnotes thereto in the Company’s Registration Form S-1/A filed December 6, 2018.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries FTPM Resources Ltd. and Dominion Energy Processing Group, Inc. after elimination of the intercompany accounts and transactions.

Going Concern

These consolidated financial statements have been prepared in accordance with U.S. GAAP to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months.

As shown in the accompanying financial statements, the Company has incurred operating losses since inception. As of November 30, 2018, the Company has limited financial resources with which to achieve the objectives and obtain profitability and positive cash flows. As shown in the accompanying balance sheets and statements of operations, the Company has an accumulated deficit of $11,266,989 at November 30, 2018, and a working capital deficit of $224,769. Achievement of the Company's objectives will be dependent upon the ability to obtain additional financing, generate revenue from current and planned business operations, and control costs. The Company plans to fund its future operations by joint venturing, obtaining additional financing from investors, and/or lenders, and attaining additional commercial revenue. However, there is no assurance that the Company will be able to achieve these objectives, therefore substantial doubt about its ability to continue as a going concern exists. The financial statements do not include adjustments relating to the recoverability of recorded assets nor the implications of associated bankruptcy costs should the Company be unable to continue as a going concern. In the event the Company is unable to fulfill the terms as specified in the Farm Contract of Purchase and Sale (Note 4), the Company could default on the agreement and surrender its right to future claims on the respective property.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management assumptions and estimates relate to long-lived asset impairments and stock-based compensation. Actual results could differ from these estimates and assumptions and could have a material effect on the Company’s reported financial position and results of operations.

6

QUANTUM ENERGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018

Risks and uncertainties

The Company’s operations are subject to significant risks and uncertainties, including financial, operational, technological and other risks associated with operating an emerging oil and gas business, including the potential risk of business failure.

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less when acquired to be cash equivalents.

Income taxes

The Company accounts for income taxes using the liability method. The liability method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of (i) temporary differences between financial statement carrying amounts of assets and liabilities and their basis for tax purposes and (ii) operating loss and tax credit carry-forwards for tax purposes. Deferred tax assets are reduced by a valuation allowance when management concludes that it is more likely than not that a portion of the deferred tax assets will not be realized in a future period.

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, promissory notes payable, and promissory notes payable, related parties. All instruments are accounted for on a cost basis, which, due to the short maturity of these financial instruments, approximates fair value at November 30, 2018 and February 28, 2018, respectively.

Long-Lived Assets

The Company reviews long-lived assets which include a deposit on land purchase for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows and reports any impairment at the lower of the carrying amount or the fair value less costs to sell.

Fair value measurements

When required to measure assets or liabilities at fair value, the Company uses a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used. The Company determines the level within the fair value hierarchy in which the fair value measurements in their entirety fall.   The categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.   Level 1 uses quoted prices in active markets for identical assets or liabilities, Level 2 uses significant other observable inputs, and Level 3 uses significant unobservable inputs. The amount of the total gains or losses for the period are included in earnings that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date. The Company has no financial assets or liabilities that are adjusted to fair value on a recurring basis.

At November 30, 2018 and February 28, 2018, the Company had no assets or liabilities accounted for at fair value on a recurring basis.

Stock-based Compensation

The Company estimates the fair value of options to purchase common stock using the Black-Scholes model, which requires the input of some subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (“expected life”), the estimated volatility of the Company’s common stock price over the expected term (“volatility”), employee forfeiture rate, the risk-free interest rate and the dividend yield. Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation. Options granted have a ten-year maximum term and varying vesting periods as determined by the Board of Directors. The value of shares of common stock awards is determined based on the closing price of the Company’s stock on the date of the award. Compensation expense for equity awards are recognized over the period during which the recipient is required to provide service in exchange for the award.

QUANTUM ENERGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018

Reclassifications

Certain reclassifications have been made to the 2017 financial statements in order to conform to the 2018 presentation. These reclassifications have no effect on net loss, total assets or accumulated deficit as previously reported.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update provides guidance on classification for cash receipts and payments related to eight specific issues. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Company adopted the provisions of the pronouncement effective March 1, 2018 and it did not result in a material change to the statement of cash flows.

In January 2017, the FASB issued ASU No. 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company will apply the provisions of the update to potential future acquisitions occurring after the effective date.

In June 2018, the FASB issued ASU No. 2018-07, Compensation-Stock Compensation, Improvements to Nonemployee Share-Based Payment Accounting. ASU No. 2018-07 aligns accounting for share-based payment transactions for acquiring goods and services from nonemployees with transaction with employees. The update is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the impact of this update on its consolidated financial statements and related disclosures."

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

NOTE 3 – EARNINGS PER SHARE

Basic Earnings Per Share ("EPS") is computed as net income (loss) available to common stockholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options and warrants.

The dilutive effect of outstanding securities as of November 30, 2018 and November 30, 2017, respectively, would be as follows:

	November 30, 2018	November 30, 2017
Stock options	986,666	4,845,000
Warrants	2,129,802	1,000,000
TOTAL POSSIBLE DILUTION	3,116,468	5,845,000

QUANTUM ENERGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018

At November 30, 2018 and 2017, respectively, the effect of the Company's outstanding options and warrants would have been anti-dilutive.

NOTE 4 – OTHER ASSETS

Deposit on land purchase

On December 5, 2016, the Company executed a Farm Contract of Purchase and Sale with a land owner in Stoughton, Saskatchewan ("the Stoughton Agreement"). The purchase price of the property is $500,000 (Canadian) subject to certain terms and conditions including approval of the purchase by the Saskatchewan Farm Land Review board, the Company completing various test for hydrology and land suitability, the proposed refinery project meeting all requirements of various Saskatchewan government laws and bylaws, and full approval by all levels of provincial government and agencies. The Company paid $7,822 as a deposit on the property.

The purchase contract originally expired on December 15, 2017, however, the contract was amended to extend the closing date to July 10, 2018 for removal of all terms and conditions to the purchase.

On June 8, 2018, the Company amended the Stoughton Agreement to a purchase price of $525,000 (Canadian) and extended the option to purchase the property until December 31, 2018. The Stoughton Agreement expired on December 31, 2018. Management is currently negotiating an additional extension of the Stoughton Agreement.

NOTE 5 –NOTES PAYABLE

On October 31, 2018, the Company executed a Promissory Note with a principal amount of $5,000. The note is due on demand and bears interest in the amount of eight percent (8%) per annum, computed on the basis of actual number of days based upon a 360-day year. As of November 30, 2018, the accrued interest payable on the promissory note was $33 which is included in "Accounts payable and accrued liabilities".

The Company’s outstanding notes payable are summarized as follows:

	November 30, 2018	February 28, 2018
0% unsecured note payable	$ 2,980	$ 2,980
8% unsecured note payable	5,000	-
TOTAL	$ 7,980	$ 2,980

These notes are all due on demand.

NOTE 6 –RELATED PARTY TRANSACTIONS

Certain officers and directors of the Company had personally incurred various expenses on behalf of the Company. As of November 30, 2018 and February 28, 2018, the balances due to the officers and directors were $133,734 and $28,444, respectively.

On October 31, 2018, the Company entered into a promissory note with a principal amount of $60,000 with a limited partnership in which a director of the Company is the general partner. The note is due on demand and bears interest in the amount of eight percent (8%) per annum, computed on the basis of actual number of days based upon a 360-day year. As of November 30, 2018, the accrued interest payable on the promissory note was $400 which is included in “Accounts payable and accrued liabilities, related party”.

	November 30, 2018	February 28, 2018
0% unsecured note payable	$ 4,300	$ 4,300
8% unsecured note payable	60,000	-
TOTAL	$ 64,300	$ 4,300

QUANTUM ENERGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018

NOTE 7 – COMMITMENTS AND CONTINGENCIES

On April 15, 2018, the Company executed a conditional binding letter of intent, pursuant to which upon satisfaction of certain conditions, IEC Arizona, Inc, a privately-held Wyoming corporation and affiliated company of IEC Arizona, Inc (“IEC”), would be merged into Quantum Energy, Inc. The proposed merger is conditioned upon, among other things, IEC’s successful completion of its due diligence examination of the Company, the negotiation and execution of a definitive agreement, and IEC raising in the aggregate $50,000,000. Provided such conditions are satisfied including IEC’s funding of the Total Capital Investment, Quantum will issue to IEC such number of shares of Quantum common stock as shall represent 60% of the then issued and outstanding shares of Quantum common stock. Quantum will also, based on valuations yet to be determined, issue additional shares (after the initial issuance to IEC), to additional investors, as necessary to accommodate the closing of the Total Capital Investment. The combined entity will also provide the necessary funds required to prove out the viability of the development of the refinery (the “Refinery”) currently planned to be developed in Stoughton Saskatchewan, Canada including (a) obtaining environmental and engineering studies to prove the viability of the intended site, (b) if the site is determined to be viable, to acquire the land, (c) obtain required permits and (d) pay other related costs. The transaction is expected to be completed on or before December 31, 2018 or 180 days following approval of the S-1 filing, whichever date is later and may be extended by written agreement of Quantum Energy, Inc. and IEC.

Several members of the Company’s board of directors are also officers and directors of IEC Arizona, Inc.

NOTE 8 – COMMON STOCK

<u>Common stock</u>

The Company is authorized to issue 495,000,000 shares of its common stock with a par value of $0.001 per share. All shares of common stock are equal to each other with respect to voting, liquidation, dividend, and other rights. Owners of shares are entitled to one vote for each share owned at any Shareholders’ meeting.

<u>Preferred stock</u>

The Company is authorized to issue 5,000,000 shares of its preferred stock with a no-par value per share with no designation of rights and preferences.

On December 13, 2017, the Company issued 1,000,000 shares of its common stock pursuant to a retirement of 1,000,000 shares of convertible Series A preferred stock. On February 6, 2018, the Company's Board of Directors cancelled and rescinded the certificate of Designations, Preferences and Rights of the Series A Preferred Stock. This exchange resulted in a deemed distribution to the preferred shareholders based on the fair value of the common shares received compared to the carrying value of the preferred shares exchanged.

Common shares issued for cash

On February 28, 2018, the Company closed a private placement of its securities (the "2018 Offering). The 2018 Offering consisted of the sale of "units" of the Company's securities at the per unit price of $0.15. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock. Warrants issued pursuant to the 2018 Offering entitled the holders to purchase shares of common stock for the price of $0.15 per share. The term of each warrant is for twenty-four months from date of issuance. The proceeds of $125,000 for the 2018 Offering were received prior to February 28, 2018 but the shares had not been issued until after that date. Thus, the proceeds are classified as "Common Stock Payable" as of February 28, 2018. The Company issued 833,333 shares of its common stock on April 4, 2018.

QUANTUM ENERGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 2018

Common shares issued for services

On April 12, 2017, the Company issued 850,000 shares of its common stock with a fair value of $85,000 based on the closing price of $0.10 per share for professional services.

On April 4, 2018, the Company issued 181,323 shares of its common stock to two service providers in lieu of cash payment for accounts payable pursuant to the terms of the 2018 Offering. Based on a share price of $0.15, the fair value of the shares issued was $27,198 which approximates the fair value of the consideration given and were classified as "Common Stock Payable" as of February 28, 2018.

On April 4, 2018, the Company issued 115,146 shares of its common to a service provider in lieu of cash for professional services provided during March and April 2018. Based on a share price of $0.15, the fair value of the shares issued is $17,272.

Common stock retirement

On January 27, 2018, the former chairman of the Company's board of directors and a current director of the Company's board of directors agreed to return 5,000,000 shares of the Company's common stock, respectively for an aggregate total of 10,000,000 common shares for consideration of $Nil. The shares are held by the Company as authorized but unissued treasury shares as of November 30, 2018.

NOTE 9 - STOCK OPTIONS

Options issued for consulting services

In consideration of various agreements in exchange for consulting services, the Company issued stock options to purchase shares of the Company’s common stock based on "fair market price" which is typically the closing price of the Company's common stock on the issue dates.

On March 15, 2018, by mutual agreement, the Company amended 666,666 fully-vested options to purchase common stock at an exercise price of $0.40 per share to an exercise price of $1.00 per share. The expiration date of the options was extended from August 13, 2018 to December 31, 2018. By mutual agreement, the Company and the holder also rescinded 333,334 non-vested options to purchase common stock. The Company recognized an expense of $5,131 which represents the excess of fair value of the options post-modification compared to the fair value of the options pre-modification as of March 15, 2018.

On March 15, 2018, by mutual agreement, the Company amended 1,100,000 options to purchase common stock at an exercise price of $0.22 per share to 320,000 fully-vested options to purchase common stock at an exercise price of $1.00. The expiration date of the options was modified from August 13, 2018 to December 31, 2018. The fair value of the options after modification of terms did not exceed the fair value of the options prior to modification.

On March 23, 2018, 1,000,000 options, of which 666,666 were fully vested, were terminated at the request of the option holder. Prior to termination the options had an exercise price of $0.40 per share.

As of November 30, 2018, there was no unrecognized stock option expense for consulting services.

Options issued for land purchase option agreements

In consideration for option agreements to purchase land located in the State of Montana, the Company issued stock options to purchase shares of the Company’s common stock based on "fair market price" which is typically considered the closing price of the Company's common stock on the issue dates.

All the options for land purchase options expired on July 21, 2017 and August 22, 2017.

The following table summarizes additional information about all options granted by the Company as of November 30, 2018:

Date of Grant	Options outstanding	Options exercisable	Price (a)	Remaining term (b)
August 13, 2015	666,666	666,666	$1.00	0.03
December 2, 2016	320,000	320,000	1.00	0.03
Total options	986,666	986,666	$1.00	0.08

(a) Weighted average exercise price per shares
(b) Weighted average remaining contractual term in years.

NOTE 10 - WARRANTS

On March 15, 2018, by mutual agreement, the Company amended 500,000 common stock purchase warrants from an exercise price of $0.13 per share to $1.00 per share.

On or about March 15, 2018, by mutual agreement, the Company amended 500,000 common stock purchase warrants from an exercise price of $0.21 per share to $1.00 per share and extended the expiration date to June 9, 2020.

The following is a summary of the Company's warrants issued and outstanding:

	For the nine months ended November 30,			
	2018		2017	
	Warrants	Price (a)	Warrants	Price (a)
Beginning balance	2,129,802	$ 1.00	1,177,934	$ 0.19
Issued	-	-	500,000	0.10
Exercised	-	-	-	-
Expired	-	-	(677,934)	(0.90)
Ending balance	2,129,802	$ 1.00	1,000,000	$ 0.17

(a) Weighted average exercise price per shares

The following table summarizes additional information about the warrants granted by the Company as of November 30, 2018:

Date of Grant	Warrants outstanding	Warrants exercisable	Price	Remaining term (years)
November 19, 2016	500,000	500,000	$ 1.00	0.97
July 10, 2017	500,000	500,000	1.00	1.53
February 28, 2018	1,129,802	1,129,802	1.00	1.25
Total warrants	2,129,802	2,129,802	$ 1.00	1.27

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report and the exhibits attached hereto contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements concern the Company’s anticipated results and developments in the Company’s operations in future periods, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Any statement that expresses or involves discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always using words or phrases such as “expects” or “does not expect”, “is expected”, “anticipates” or “does not anticipate”, “plans”, “estimates”, or “intends”, that certain actions, events or results “may” or “could”, “would”, “might” or “will” be taken, occur or be achieved) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation:

- Risks related to the Company being in the exploration stage;
- Risks related to government regulation;
- Risks related to environmental concerns;
- Risks related to the Company’s ability to obtain additional required capital to implement the Company’s business strategy reqarding the development, construction and operation of the Stoughton refinery;
-
- Risks related to the Company’s insurance coverage for operating risks;
- Risks related to the fluctuation of prices for crude oil;
- Risks related to the competitive oil refinery industry;
-
- Risks related to the possible dilution of the Company’s common stock from additional financing activities;
- Risks related to potential conflicts of interest with the Company’s management;
- Risks related to the Company’s shares of common stock.

This list is not exhaustive of the factors that may affect the Company’s forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the sections titled “Risk Factors”, “Description of Business” and “Management’s Discussion and Analysis and Plan of Operation” of this Quarterly Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. The Company cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Quantum Energy, Inc. disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as required by law. The Company advises readers to carefully review the reports and documents filed from time to time with the Securities and Exchange Commission (the “SEC”), particularly the Company’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Quantum Energy, Inc. qualifies all forward-looking statements contained in this Quarterly Report by the foregoing cautionary statement.

Certain statements contained in this Quarterly Report on Form 10-Q constitute “forward-looking statements.” These statements, identified by words such as “plan,” “anticipate,” “believe,” “estimate,” “should,” “expect,” and similar expressions include the Company’s expectations and objectives regarding its future financial position, operating results and business strategy. These statements reflect the current views of management with respect to future events and are subject to risks, uncertainties and other factors that may cause actual results, performance or achievements, or industry results, to be materially different from those described in the forward-looking statements. Such risks and uncertainties include those set forth under the caption “Management’s Discussion and Analysis and Plan of Operation” and elsewhere in this Quarterly Report.

As used in this Quarterly Report, the terms “we,” “us,” “our,” “Quantum Energy,”, “Quantum” and the “Company”, mean Quantum Energy, Inc., unless otherwise indicated. All dollar amounts in this Quarterly Report are expressed in U.S. dollars, unless otherwise indicated.

The following statements may be forward-looking in nature and actual results may differ materially.

Corporate Background

Our business strategy is to develop a “state-of-the art”, energy efficient, 40,000 BPD full slate refinery in Stoughton, Saskatchewan, Canada (the “Stoughton Refinery”) to refine the light shale crude oil primarily from the Viewfield oil field of the Bakken formation in Saskatchewan, Canada. Our principal executive offices are located at 218 N. Jefferson Street, Suite 400, Chicago, Illinois 60661. The Company’s telephone number is (480) 734-0337. Our website is www.quantum-e.com and is not part of this Quarterly Report.

Historical Operations

We were originally incorporated as Boomers Cultural Development, Inc. (“Boomers”) on February 5, 2004, in the State of Nevada to be a service-oriented firm that would integrate the cultural interests of baby boomers with destination learning, by packaging onsite personal growth, education, and entertainment seminars with a variety of vacation destinations. On May 18, 2006, our name was changed to Quantum Energy, Inc. and our business focus was changed to focus on the energy industry and in particular the oil and gas segments of the energy industry. From 2008 through 2010, we planned, when and if funding became available, to acquire high-quality oil and gas properties, primarily proven producing and proven undeveloped reserves as well as exploring low-risk development drilling and work-over opportunities with experienced, well-established operators. However, the anticipated funding opportunities did not materialize.

On October 30, 2017, Mr. Wilson, our then sole director and principal shareholder, appointed Jeffrey J. Mallmes and Andrew J. Kacic as directors and on November 8, 2017, our directors appointed Jeffrey J. Mallmes as our chairman, president, treasurer and director, Andrew J. Kacic as our secretary and director and Lorne Keith Stemler as our vice-president and director. At or about this time, we focused our business strategy to develop a “state-of-the art”, energy efficient, 40,000 BPD full slate refinery in Stoughton, Saskatchewan, Canada (the “Stoughton Refinery”) to refine the light shale crude oil from the Bakken formation of the Viewfield oil field area of Saskatchewan, Canada.

Also, at or about this time, Mr. Mallmes, our chairman and president, reviewed all of the outstanding agreements and transactions that we had entered into between August 2013 and November 2017. Mr. Mallmes began to renegotiate, rescind or settle all of those agreements that had proven not to be in our best interest or the best interest of our stockholders. As a result of Mr. Mallmes’ efforts (i) a total of 39,699,800 shares of our Common Stock were returned to us (consisting of (a) 14,699,800 shares of Common Stock that were returned to us pursuant to an October 26, 2017 cancellation and settlement of a July 21, 2015 agreement with Native Son Refining LLC, (b) 10,000,000 shares of

Common Stock that were returned to us in connection with the January 24, 2017 mutual rescission and cancellation of the July 2016 agreement with Mountain Top Properties, Inc. relating to the acquisition of partnership interests in New Tex Petroleum IV, LP; (c) 5,000,000 shares of Common Stock that were returned to us in connection with the January 15, 2018 mutual rescission of a July 2016 agreement with Mountain top Properties, Inc. relating the acquisition of a working interest in a heavy oil project in Missouri; (d) 5,000,000 shares of Common Stock that were returned to us from Stanley F. Wilson at the request of Mr. Mallmes; and (e) 5,000,000 shares of Common Stock that were returned to us from Andrew J. Kacic at the request of Mr. Mallmes), (ii) at the request of Mr. Mallmes, Mr. Wilson and Mr. Kacic each returned to us 500,000 shares of Series A Preferred Stock (which were convertible into Common Stock at a 1 for 100 ratio) were cancelled and returned to our treasury and the designation of rights and preferences of the Series A Preferred Stock was rescinded, and in consideration we issued 500,000 shares of our Common stock to each of Mr. Wilson and Mr. Kacic, (iii) the certificate evidencing shares of our Series B Preferred Stock (which had previously been converted into Common Stock) was returned to us and the designation of rights and preferences of the Series B Preferred Stock was rescinded, (iv) the exercise prices for our outstanding unexpired warrants and stock options, which had exercise prices ranging from $0.13(USD) per share to $0.40(USD) per share, were all renegotiated and reset at $1.00(USD) per share, (v) several outstanding promissory notes evidencing loans to Sierra Global in 2016 in the aggregate amount of $67,500(USD) were determined by management to be not collectable and we recognized an expense of $67,500(USD) for the year ended February 28, 2018, (vi), various land purchase option agreements with various landowners in and around the States of Montana and North Dakota encompassing approximately 1,150 acres were cancelled or expired. The Land Contract for the purchase of the Land (480 acres) for the intended site of the Stoughton Refinery in the Province of Saskatchewan is discussed below.

Effective May 11, 2017, Mr. Wilson then our sole director and officer appointed Robert L. Monday (who at the time was the managing principal of Native Son Holdings LLC), as our CEO and director and as CEO of, and our subsidiary FTMP Resources, Inc. On October 26, 2017, Robert L Monday resigned as our CEO and director and as CEO of our subsidiary FTMP Resources, Inc.

On February 24, 2018, Lorne Keith Stemler, resigned as a director and officer of the Company and all subsidiaries.

On February 28, Stan Wilson, resigned as a director and officer of the Company.

On April 12, 2018, William J. Hinz was appointed as a director of the Company.

On July 2, 2018, Richard K. Ethington and Pamela L. Bing were appointed as directors of the Company.

We currently have two subsidiaries: Dominion Energy Processing Goup, Inc. (“DEPG”), a Canadian Federal business corporation, which is our 100% owned Canadian subsidiary through with we intend to develop, construct and operate the Stoughton Refinery; and FTPM Resources, Inc., a Texas corporation which is a dormant company.

Overview of Current Operations

Our current and planned operations are to develop, construct and operate a “state-of-the-art”, energy efficient, full slate oil refinery including a storage tank farm and associated facilities in Stoughton, Saskatchewan, Canada (the Stoughton Refinery”). In this regard, on August 2, 2016, we formed our Canadian subsidiary, Dominion Energy Processing Group, Inc. for purposes of the Pre-development work, construction and operation of the Stoughton Refinery. The Stoughton Refinery, when fully developed and operating, will be designed be a 40,000 barrel per day facility utilizing Bakken sweet crude produced from the Bakken formation in the province of Saskatchewan province.

We have identified a 480-acre site in Stoughton Saskatchewan (the “Land”) on which we intend to construct the Stoughton Refinery. The Land is located in southeastern Saskatchewan in the regional municipality of Tecumseth in the heart of the Viewfield oil field area of the Bakken formation. The unconventional, marketable resources of the Bakken in the Viewfield oil field area are expected to be 74 million m³ (464 million barrels) (see “The Ultimate Potential for Unconventional Petroleum from the Bakken Formation of Saskatchewan – Energy Briefing Note” April 2015 of the National Energy Board (an independent economic regulatory agency created in 1959 by the Government of Canada,http://www.nebone.gc.ca/nrg/sttstc/crdlndptrlmprd The Land is approximately 100 kilometers north of the Canadian USA border. The Land has sufficient acreage to accommodate expansion of the Stoughton Refinery facilities to included future ethanol and rail car load and unload facilities.

On December 5, 2016, we executed a Farm Contract of Purchase and Sale (the “Land Contract”) with the landowner. The purchase price of the Land under the Land Contract was $500,000(CAD). We paid $10,000(USD) ($7,822(USD)) as a deposit on the Land. Our obligation to purchase the Land under the Land Contract is subject to certain terms and conditions including the completion of the various tests to confirm the validity and suitability of the hydrology and the Land for the construction and operation of the Stoughton Refinery, the proposed Stoughton refinery meeting all requirements of various Saskatchewan government laws, and bylaws and being fully approved by all levels of the Saskatchewan government and agencies, and the Land purchase being approved the Saskatchewan Farm Land Security Board (collectively the “Predevelopment Work”). The Land Contract had an expiration date of December 15, 2017, however, we have negotiated an extension of the Land Contract until December 31, 2018 (unless further extended), for removal of all terms and conditions to the purchase of the Land and the purchase price of the Land under the Land Contract was increased to $525,000(CAD). Management is currently negotiating an additional extension of the Stoughton Agreement. No assurances can be given that we will be able to obtain all required governmental approvals.

If the viability and suitability of the Land for the development, construction and operation of the Stoughton Refinery is validated, and provided we have the required capital, we intend to commence the process of obtaining necessary permits and approvals to develop, construct and operate the Stoughton Refinery.

We estimate that costs to complete the Predevelopment Work and the purchase of the Land will be approximately $7,500,000(CAD). We intend to use the proceeds from our Primary Offering to pay for a portion of the Predevelopment Work. Even if we raise all $4,000,000(USD) from our Primary Offering will need to obtain additional financing to cover the balance of the costs for the Predevelopment Work and the purchase of the Land and permitting. We have entered into a conditional binding letter of intent which provides that if the stated conditions in the letter of intent are satisfied we will receive the necessary funds (estimated at $7,500,000 CAD) to complete the Predevelopment Work and the purchase of the Land. See, “Letter of Intent with Inductance Energy Corporation” and “Certain Relationships and Related Transactions.” However, no assurances can be given that the conditions of the letter of intent will be satisfied or that we will obtain the financing needed to complete the Predevelopment Work and the purchase of the Land.

The Stoughton Refinery

15

When completed, the Stoughton Refinery will be a smaller, “state-of-the-art”, energy efficient refinery 40,000 BPD refining facility located southeastern Saskatchewan in the regional municipality of Tecumseth in the heart of the Viewfield oil field area of the Bakken formation. The Stoughton Refinery will be designed to use light sweet crude feedstock from the Bakken formation in the Viewfield oil field area to produce a limited number of products for the local market. We intend to utilize Bakken crude as our feed stock since it would be the most plentiful crude slate in the Viewfield oil field area where the Stoughton Refinery will be located. We intend to refine and sell a variety of refined products to our customers, including natural gas liquids, gasoline, jet fuel, diesel, drilling mud oil, ultra-low sulfur fuel oil, and sulfur and feedstocks.

We intend to reduce emissions at the Stoughton Refinery by utilizing modern technologies as follows:

- Installing ultra-low NOx heating elements in burners & boilers.
- Utilizing new technologies that are on the market for sulfur removal systems.
- Procuring hydrogen from a separate source provider or onsite with “state-of-the-art” technology limiting emissions.
- Utilizing the low sulfur “sweet” Bakken crude oil as a feed source.
- Installing vapor recovery systems on all tanks in the tank farm.
- Capturing the CO_2 emissions.
- Installing quality air monitoring sensors and controls.
- Utilizing SCR and oxidizing catalysts to reduce NOx, CO and VOC emissions from selected process heaters.

We believe the gasoline and diesel that we refine at the Stoughton Refinery will be less expensive because we will be able to reduce the transportation costs of shipping crude from outside this area and then having to pay for the “return” shipping of the refined products. However, no assurances can be given that we will be able to reduce the transportation costs so that our refined products will be less expensive than our competitors.

Capital Costs and Startup

We estimate that the capital cost of developing and constructing the Stoughton Refinery will be approximately $525,000,000(CAD), which includes the Pre-development Work, Land acquisition, permitting, engineering, ISBL (inside battery limit) plant equipment and site work. We estimate that initial working capital and the cost of initial crude will add approximately $75,000,000(CAD), for a total of $600,000,000(CAD). It is our intent that this total amount will also include financing fees, reserves, taxes, wages, insurance, and other contingency expenses. No assurances can be given that the actual capital costs and startup capital will not exceed these estimates. No assurances can be given that such financing will be available at all or, if available, on terms that will be acceptable to us. We currently have no agreements or source or commitments for such financing.

Business Strategy

We have implemented several initiatives that we believe will further our business strategy to build and operate the Stoughton Refinery. The principal elements of our business strategy are:

Identify and Attract Growth Capital. In order to execute our business strategy, we will require a significant amount of financing. Any proceeds we receive from our Primary Offering will be used to commence only the very early stages of this process. If we raise the maximum amount of funds from our Primary Offering, we will be able to commence the process of obtaining the studies to validate the viability and suitability of the Land for the purpose of building the Stoughton Refinery and obtain the environmental permit and purchase the Land. If the Land is determined to be viable and suitable, we will need financing, in addition to the proceeds from our Primary Offering, to do the balance of the Predevelopment Work and to purchase the Land. Also, we estimate that the Stoughton Refinery will cost approximately $600,000,000(CAD) to build and commence operations. Accordingly, we intend to seek the necessary substantial financing to for the construction of the Stoughton Refinery after completion of the Pre-development Work.

Increase Refinery Throughput. As we commence building operations for the Stoughton Refinery and the Stoughton Refinery comes online, we will seek to increase crude oil throughput. We intend to construct the Stoughton Refinery to be able to process up to approximately 40,000 barrels per day.

Location of the Stoughton Refinery reducing Logistics Costs

Because of the location of the Stoughton Refinery, we believe that the logistics costs will be reduced due to the proximity of the supply of feed stock and the consumption of our refined products by our intended customers.

Use of Alternative Energy to Run the Stoughton Refinery. We believe that an important variable direct operating cost of operating the Stoughton Refinery will be energy, which will be comprised primarily of fuel and other utility services. The volatility in costs of fuel, principally natural gas, and other utility services, principally electricity, that will be used by the Stoughton Refinery and other operations will affect our operating costs. Fuel and utility prices have been, and we expect will continue to be, affected by factors outside our control, such as supply and demand for fuel and utility services in both local and regional markets. Natural gas prices have historically been volatile and, typically, electricity prices fluctuate with natural gas prices. Future increases in fuel and utility prices may have a negative effect on our revenues, profitability and cash flows. We intend to explore and, if feasible, use alternative sources of energy to operate the Stoughton Refinery to lower our operating costs. No assurances can be given that alternative sources of energy will be available or sufficient to operate all of any portion of the Stoughton Refinery or that the use of alternative sources of energy will lower our operating costs.

<u>Product Line Quantities</u>

We believe that the amount of crude oil being produced through new horizontal drilling and hydraulic fracking techniques and technologies and the recent increases in the price of refined oil has created many opportunities for the refining business throughout the Bakken area. We believe that most of the products from our proposed Stoughton Refinery can be sold in the Saskatchewan province.

Based on operating the Stoughton refinery on a 360-day year of operations and refining at a capacity of 40,000 BPD, with crude from the Viewfield oil field area, we estimate the Stoughton Refinery product output as follows:

Product Yield in barrels per day, gallons per day, and total gallons per year

Product	**Barrels Per Day**	**Gallons Per Day**	**Total Gallons Per Year**
Gasoline	18,400 barrels	772,800 gallons	278,208,000 gallons
#2 Diesel	13,200 barrels	554,400 gallons	200,000,000 gallons
#1 Diesel	5,600 barrels	235,200 gallons	84,672,000 gallons
AGO/bottoms	2,800 barrels	117,600 gallons	42,336,000 gallons

These yields are estimates only and do not take into consideration that the yield per barrel increases about 2.6 gallons when refined. A refined 42-gallon barrel can yield 44.6 gallons of product due to molecular expansion and light gas off-take. Other products can include ethane, propane, isobutane, n-butane, isopentane, n-pentane, and hexanes, with the largest volumes of these products being butane and propane. There will also be elemental sulfur that is a sellable product. These estimates do not include the additional gasoline produced by refining an additional 10,000 barrels per day of raw naphtha into gasoline. No assurances can be given that we will be able to achieve such estimated product yields or to achieve a 360-day year of operations.

Although gasoline and diesel are expected to be the major products derived from the refining process at the Stoughton Refinery, we expect that additional products can be manufactured from refined by-products including jet fuel, heavy fuel oil, asphalt, lubricants and many more products.

<u>Marketing and Sales</u>

The Stoughton Refinery will require truck loading and unloading facilities for the crude supply and the refined products. We believe that most of the gasoline and diesel can be sold at the site or “rack” and be transported by truck. Some of the product may also be shipped by rail tanker car to other refineries or processing plants for the particular product.

We expect that the price of the gasoline and the diesel per gallon will follow the "rack" prices in the nearby cities. These prices are posted on a daily basis at reporting groups such as OPIS (oil price information service).

We intend to sell part of the AGO (atmospheric gas and oil) and bottoms locally to the drilling industry for their diesel-based drilling fluids and the fluids that are utilized when they turn horizontal. We also intend to sell the balance to other refineries to utilize their heavy oil conversion units or for ultra-low sulfur ship fuel.

IEC Letter of Intent

On April 15, 2018, we entered into a conditional binding letter of intent with Inductance Energy Corporation a Wyoming corporation (“IEC”), pursuant to which if all of the conditions contained in the letter of intent are satisfied, (a) we will be merged with a newly formed subsidiary of IEC with us being the surviving company, (b) we will issue to IEC such number of new shares of our Common Stock as shall represent 60% of our then issued and outstanding shares of Common Stock, and (c) IEC will provide to us as the surviving company up to $50,000,000(USD), a portion of which (estimated at $7,500,000 CAD) we intend to use to (i) validate the viability and suitability of the development of the Stoughton Refinery on the intended sight in Stoughton Saskatchewan Canada, which will include obtaining environmental and engineering studies to validate the viability and suitability of the intended site for the Stoughton Refinery, and (ii) if the site is determined to be viable and suitable, we will commence the process of obtaining the required permits to build the Stoughton Refinery and (iii) we will acquire the Land, and (iv) we will pay other related costs. No assurances can be given that the conditions to the letter of intent with IEC will be satisfied or that the transactions or the financing, including the estimated $7,500,000(CAD), contemplated in the letter of intent will be consummated.

Long Range - Additional Operations

If we are able to obtain sufficient financing to complete the Predevelopment Work and complete the development and construction of the Stoughton Refinery and commence the operation of the Stoughton Refinery, and if we can obtain additional substantial financing, our long range plan is to expand the Stoughton facility on the Land to include (i) a bio-ethanol plant with an initial capacity of approximately 65,000 tons per year that will provide ethanol for blending the product gasoline from the Stoughton refinery. We expect that the main feedstock for this plant will be wheat/barley/flax straw sourced from the local market and (ii) a rail line extension project that will allow us and local grain producers to transport products to the boarder by using only one carrier. No assurances can be given that we will be able to obtain such additional substantial financing to expand our Stoughton facility to include a bio-ethanol plant or to develop a rail line extension. We currently have no agreements or source or commitments for such financing and no assurances can be given that such financing will be available at all or if available on terms that will be acceptable to us.

Competition

We intend to develop, construct and operate the Stoughton refinery in the Bakken region of Stoughton, Saskatchewan Canada. Currently, refined products are supplied from the region’s existing refineries as well as from refineries located in other regions, including the Midwest via interstate pipelines. We believe that the principal competitive factors that will affect us are costs of crude oil and other feedstocks, refinery efficiency, refinery product mix and costs of product distribution and transportation. As a new entrant to the refining industry, we will face significant competition and barriers to entry from larger companies such as Valero Energy Corp and BP and others. Because of their geographic diversity, larger and more complex refineries, integrated operations and greater resources, some of our competitors may be better able to withstand volatile market conditions, to compete on the basis of price, to obtain crude oil in times of shortage, and to bear the economic risk inherent in all phases of the refining industry.

Intellectual Property

At present, we do not have any patents, trademarks, licenses, franchises, concessions, and royalty agreements, labor contracts or other proprietary interests.

Research and Development

We are not currently conducting any research and development activities.

Governmental Regulation

All of our contemplated operations and properties are and will be subject to extensive Canadian and U.S. federal, provincial, state and local environmental and health and safety regulations governing, among other things, the generation, storage, handling, use and transportation of petroleum and hazardous substances; the emission and discharge of materials into the environment; waste management; and characteristics and composition of gasoline and diesel fuels. Our operations also require numerous permits and authorizations under various environmental and health and safety laws and regulations. Failure to comply with these permits or environmental laws generally could result in fines, penalties or other sanctions or a revocation of our permits. We will have to make significant capital and other expenditures related to environmental and health and safety compliance, including with respect to our air permits and the low-sulfur gasoline and ultra-low-sulfur diesel regulations.

Canada has adopted the Canadian Environmental Protection Act 1999 ("CEPA") and the U.S. Environmental Protection Agency has adopted regulations that require significant reductions in the sulfur content in gasoline and diesel fuel. These regulations required most refineries to begin reducing sulfur content in gasoline. However, we believe we may qualify for what is known as "small refiner status" under such regulations which would provide us some relief from some of such regulations. We intend to have the Stoughton Refinery designed and engineered to adhere to all required regulations of CEPA. No assurances can be given that the Stoughton Refinery we will adhere to all required regulations of CEPA.

Certain environmental laws hold current or previous owners or operators of real property liable for the costs of cleaning up spills, releases and discharges of petroleum or hazardous substances, even if these owners or operators did not know of and were not responsible for such spills, releases and discharges. These environmental laws also assess liability on any person who arranges for the disposal or treatment of hazardous substances, regardless of whether the affected site is owned or operated by such person.

In addition to clean-up costs, we may face liability for personal injury or property damage due to exposure to chemicals or other hazardous substances that we may have manufactured, used, handled or disposed of or that are located at or released from our refinery or otherwise related to our current or former operations. We may also face liability for personal injury, property damage, natural resource damage or for clean-up costs for the alleged migration of petroleum or hazardous substances from our refinery to adjacent and other nearby properties.

Waste Handling

The Canadian federal government and provincial statutes and regulations affect oil and natural gas exploration, development and production activities by imposing requirements regarding the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. With applicable approval, the individual provinces administer some or all of the provisions of such laws, sometimes in conjunction with their own, more stringent requirements. No assurances can be given the CEPA or applicable provincial or local governments will not adopt more stringent requirements for the handling of non-hazardous wastes or categorize some non-hazardous wastes as hazardous for future regulation. Legislation has been proposed from time to time in the Canadian Parliament to re-categorize certain oil and natural gas exploration, development and production wastes as “hazardous wastes.” Any such changes in the laws and regulations could have a material adverse effect on our capital expenditures and operating expenses.

Other Regulations of the Oil and Natural Gas Industry

The oil and natural gas industry is extensively regulated by numerous Canadian federal, provincial, state and local authorities. Legislation affecting the oil and natural gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal, provincial and state, are authorized by statute to issue rules and regulations that are binding on the oil and natural gas industry and its individual members, some of which carry substantial penalties for failure to comply. Although the regulatory burden on the oil and natural gas industry will increase our cost of doing business and, consequently, will affect our profitability, we believe that these burdens generally will not affect us any differently or to any greater or lesser extent than they affect other companies in the industry with similar types, quantities and locations of production.

The availability, terms and cost of transportation significantly affect sales of oil and natural gas. The inter-provincial transportation and sale for resale of oil and natural gas is subject to federal and provincial regulation, including regulation of the terms, conditions and rates for interstate transportation, storage and various other matters, primarily by the Canadian National Energy Board. Canadian regulations govern the price and terms for access to oil and natural gas pipeline transportation. Regulations covering inter-provincial oil and natural gas transmission in some circumstances may also affect the intra-provincial transportation of oil and natural gas.

Although oil and natural gas prices are currently unregulated, the Canadian Parliament historically has been active in the area of oil and natural gas regulation. We cannot predict whether new legislation to regulate oil and natural gas might be proposed, what proposals, if any, might actually be enacted by the Canadian Parliament or the various provincial or state legislatures, and what effect, if any, the proposals might have on our operations. Sales of condensate, oil and natural gas liquids (“NGLs”) are not currently regulated and are made at market prices.

Employees

With the exception of Jeffrey Mallmes, our Chairman, President, and Treasurer and Andrew J. Kacic, our Secretary, we currently have no other employees. We have no employment agreements with any of our management. Mr. Mallmes, Mr. Kacic, Mr. Hinz, Mr. Ethington and Ms. Bing are devoting their full efforts and as much time as needed to move the Company forward. We anticipate hiring additional employees as business activity warrants. We intend to use independent consultants to assist in the development, construction and initial operations of the Stoughton Refinery.

Legal Proceedings

In the ordinary conduct of our business, we may be subject to periodic lawsuits, investigations and claims, including environmental claims and employee-related matters. There are no material current legal proceedings pending against us.

Properties

Our current corporate offices are located at our attorney's office at 218 N. Jefferson street Suite 400, Chicago, Illinois, 60661 at no cost to the Company.

Research and Development Expenditures

The Company has not incurred any research expenditures since incorporation.

Reports to Security Holders

The Registrant does not issue annual or quarterly reports to security holders other than the annual Form 10-K and quarterly Forms 10-Q as electronically filed with the SEC. Electronically filed reports may be accessed at www.sec.gov. Interested parties also may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street NW, Washington, DC 20549. Information may be obtained on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330.

PLAN OF OPERATION

Our business strategy is to develop a "state-of-the art", energy efficient, 40,000 BPD full slate refinery in Stoughton, Saskatchewan, Canada (the "Stoughton Refinery") to refine the light shale crude oil from the Bakken formation of the Viewfield oil field area of Saskatchewan, Canada.

Management believes it can source additional capital in the investment markets in the coming months and years. The Company may also consider other sources of funding, including debt, potential mergers and joint ventures.

Future liquidity and capital requirements depend on many factors including timing, cost and progress of the Company's exploration efforts. The Company will consider additional public offerings, private placement, mergers or debt instruments to finance its activities.

Additional financing will be required in the future to complete all necessary steps to apply for a final permit. Although the Company believes it will be able to source additional financing there are no guarantees any needed financing will be available at the time needed or on acceptable terms, if at all. If the Company is unable to raise additional financing when necessary, it may have to delay construction efforts or property acquisitions or be forced to cease operations.

RESULTS OF OPERATIONS

	For the three months ended November 30,			
	2018	2017	$ Change	% Change
Office and public company expense	$ 8,458	$N,710	$I,758	J6.2%
Legal and professional fees	J5,901	L9,653	(23,752)	(47.8%)
Other expense (income)	L63	(81)	M44	(671.6%)
NET LOSS	$K4,832	$M6,282	$ (21,450)	(38.1%)

20

	For the nine months ended November 30, 2018	2017	$ Change	% Change
Advertising and marketing	$ -	$N,836	$ (6,836)	(100.0%)
Management fees and compensation	M,131	-	M,131	N/A
Office and public company expense	K0,659	I8,760	I1,899	N3.4%
Amortization of land purchase options	-	I20,032	(120,032)	(100.0%)
Legal and professional fees	J11,430	I60,403	M1,027	K1.8%
Other expense (income)	J,253	(766)	K,019	(394.1%)
NET LOSS	$J49,473	$K05,265	$ (55,792)	(18.3%)

The Company has earned no operating revenue in 2018 or 2017 and does not anticipate earning any revenues in the near future.

The Company will continue to focus its capital and resources toward permitting and development activities at its Stoughton Property.

Total net loss for the three months ended November 30, 2018 of $34,832 decreased by $21,450 from the three months ended November 30, 2017 total net loss of $56,282. Total net loss for the nine months ended November 30, 2018 of $249,473 decreased by $55,792 from the nine months ended November 30, 2017 total net loss of $305,265.

Office and public company expense

	For the three months ended November 30, 2018	2017	$ Change	% Change
General administrative and insurance	$ 818	$I,089	$ (271)	(24.9%)
Travel	L,890	L,107	O83	19.1%
Transfer agent fees	J,760	I,514	I,246	82.3%
Total office and public company expense	$ 8,468	$N,710	$I,758	J6.2%

	For the nine months ended November 30, 2018	2017	$ Change	% Change
General administrative and insurance	$J,834	$N,133	$ (3,299)	(53.8%)
Travel	J0,122	N,054	I4,068	J32.4%
Transfer agent fees	O,703	N,573	I,130	I7.2%
Total office and public company expense	$K0,659	$I8,760	$I1,899	N3.4%

Total office and public company expense increased $1,758 to $8,468 for the three months ended November 30, 2018 compared to 2017 expense of $6,710. Total office and public company expense for the nine months ended November 30, 2018 compared to 2017 increased $11,899 from $18,760 to $30,659.

Travel expense increased to $4,890 for the three months ended November 30, 2018 compared to $4,107 for the three months ended November 30, 2017 as management spent a significant amount of time meeting with various capital providers and potential merger candidates (Note 6 to the Consolidated Financial Statements). For the nine months ended November 30, 2018, travel expense increased $14,068 for the same purpose.

Legal and professional fees

	For the three months ended November 30, 2018	2017	$ Change	% Change
Audit fees	$M,331	$ (7,000)	$I2,331	(176.2%)
Accounting	L,690	K,750	940	J5.1%
Consultants	-	L,063	(4,063)	(100.0%)
Legal	I5,880	L8,840	(32,960)	(67.5%)
Total legal and professional fees	$J5,901	$L9,653	$ (23,752)	(47.8%)

	For the nine months ended November 30,			
	2018	2017	$ Change	% Change
Audit fees	$J4,662	$ -	$J4,662	N/A
Accounting	J3,208	J2,500	O08	K.1%
Consultants	-	89,063	(89,063)	(100.0%)
Legal	I63,560	L8,840	I14,720	J34.9%
Total legal and professional fees	$J11,430	$I60,403	$M1,027	K1.8%

Audit fees increased $12,331 to $5,331 for the three months ended November 30, 2018 compared to a refunded amount of $7,000 for the three months ended November 30, 2017. For the nine months ended November 30, 2018, audit fees increased $24,662 over the prior year.

Consultant fees decreased $4,063 and $89,063 for the three and nine months ended November 30, 2018 compared to the three and nine months ended November 30, 2017, respectively. The Company paid fees with common stock in lieu of cash for services associated with fund raising and capital reorganization during 2017 that did not recur during the three months ended November 30, 2018.

For the three months ended November 30, 2018, legal fees decreased $32,960 to $15,880 compared to $48,840 for the three months ended November 30, 2017. For the nine months ended November 30, 2018, legal fees increased $114,720 compared to $48,840 for the nine months ended November 30, 2017. The Company incurred costs associated with a registration with the SEC and various legal matters associated with corporate governance. There are no pending legal issues or contingencies as of November 30, 2018.

LIQUIDITY AND FINANCIAL CONDITION

BALANCE SHEET INFORMATION	November 30, 2018	February 28, 2018
Working capital (deficit)	$(224,769)	$2,301
Total assets	14,843	65,186
Accumulated deficit	11,266,989	11,017,516
Stockholders' deficit	216,947	142,075

WORKING CAPITAL	November 30, 2018	February 28, 2018
Current assets	$7,021	$57,364
Current liabilities	231,790	55,063
Working capital (deficit)	$(224,769)	$2,301

CASH FLOWS	For the nine months ended November 30, 2018	November 30, 2017
Cash flow used by operating activities	$ (77,843)	$ (66,496)
Cash flow provided by financing activities	N5,000	M0,000