

Gen III Oil Corporation (formerly PNG Gold Corporation)

Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2017
(Unaudited)
(Expressed in Canadian dollars)

Gen III Oil Corporation (formerly PNG Gold Corporation)

Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

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Gen III Oil Corporation (formerly PNG Gold Corporation)
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	June 30, 2017	December 31, 2016
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	1,642,525	442,663
Accounts receivable	147,493	28,040
Prepaid expenses	51,289	78,033
	1,841,307	548,736
Property and equipment (note 3)	8,328	8,328
Investments	76,553	30,621
Total assets	1,926,188	587,685
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 5)	532,160	760,024
Accrued tax provision	292,000	872,833
	824,160	1,632,857
Shareholders' Equity (Deficit)		
Share capital (note 6)	67,879,133	64,041,965
Contributed surplus	7,875,674	7,374,187
Accumulated deficit	(74,729,332)	(72,139,561)
Accumulated other comprehensive income (loss)		
Cumulative translation adjustments	-	(352,384)
Unrealized gain on available-for-sale investments	76,553	30,621
Total shareholders' equity (deficit)	1,102,028	(1,045,172)
Total liabilities and shareholders' equity (deficit)	1,926,188	587,685

Nature of operations (note 1)
Commitments (note 7)
Subsequent events (note 11)

Approved on behalf of the Board of Directors:

"Greg Clarkes"

Greg Clarkes, Director

"Larry Van Hatten"

Larry Van Hatten, Director

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

Gen III Oil Corporation (formerly PNG Gold Corporation)
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Expense				
Exploration (note 4)	-	63,420	24,007	176,820
General and administration	279,266	67,468	335,747	141,482
Investor relations	10,604	695	45,150	9,173
Professional fees	475,317	84,433	857,901	199,525
Salaries and benefits (note 5)	324,420	125,313	545,412	480,668
Share-based payments (note 6)	38,443	-	501,487	-
Travel and accommodation	59,395	-	74,525	1,042
	1,187,445	341,329	2,384,229	1,008,710
Other (income) expense				
Interest income (note 5)	(4,666)	(43,904)	(22,006)	(88,233)
Foreign exchange loss (gain)	1,021	91	329,736	(744)
Impairment loss (notes 3 and 5)	-	39,790	15,481	77,659
Loss on shares for debt settlement (note 6)	630,167	-	630,167	-
Gain on disposal of subsidiary (note 10)	-	-	(747,836)	-
	626,522	(4,023)	205,542	(11,318)
Net loss for the period	1,813,967	337,306	2,589,771	997,392
Other comprehensive (income) loss				
Other comprehensive (income) loss to be reclassified to profit or loss in subsequent periods:				
Unrealized (gain) loss on available-for-sale investments	19,138	(15,311)	(45,932)	(7,655)
Exchange difference on translating foreign operations	-	768	-	5,611
Reallocation of exchange difference on translating foreign operations	-	-	(352,384)	-
	19,138	(14,543)	(398,316)	(2,044)
Total comprehensive loss for the period	1,833,105	322,763	2,191,455	995,348
Loss per share – basic and diluted	0.04	0.01	0.06	0.04
Weighted average number of shares outstanding - basic and diluted	47,860,049	26,233,657	42,490,117	26,233,657

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Gen III Oil Corporation (formerly PNG Gold Corporation)
Condensed Consolidated Interim Statements of Changes in (Deficit) Equity
(Unaudited)
(Expressed in Canadian dollars)

	Share capital	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income (loss)		Total
				Cumulative translation adjustments	Unrealized gain (loss) on available- for-sale investments	
	\$	\$	\$	\$	\$	\$
Balance as at December 31, 2015	63,540,233	7,374,187	(69,986,586)	(343,161)	22,966	607,639
Loss for the period	-	-	(997,392)	-	-	(997,392)
Other comprehensive income (loss)	-	-	-	(5,611)	(7,656)	2,044
Balance as at June 30, 2016	63,540,233	7,374,187	(70,983,978)	(348,772)	15,310	(387,709)
Issuance of share capital (note 6)	555,000	-	-	-	-	555,000
Share issuance costs (note 6)	(53,268)	-	-	-	-	(53,268)
Loss for the period	-	-	(1,155,583)	-	-	(1,155,583)
Other comprehensive income (loss)	-	-	-	(3,612)	15,311	(3,612)
Balance as at December 31, 2016	64,041,965	7,374,187	(72,139,561)	(352,384)	30,621	(1,045,172)
Issuance of share capital (note 6)	4,075,493	-	-	-	-	4,075,493
Share issuance costs (note 6)	(238,325)	-	-	-	-	(238,325)
Share-based payments (note 6)	-	501,487	-	-	-	501,487
Loss for the period	-	-	(2,589,771)	-	-	(2,589,771)
Other comprehensive income (loss)	-	-	-	352,384	45,932	398,316
Balance as at June 30, 2017	67,879,133	7,875,674	(74,729,332)	-	76,553	1,102,028

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

Gen III Oil Corporation (formerly PNG Gold Corporation)
Condensed Consolidated Interim Statements of Cash Flows
For the six months ended June 30, 2017 and 2016
(Unaudited)
(Expressed in Canadian dollars)

	2017	2016
	\$	\$
Operating activities		
Net loss for the period	(2,589,771)	(997,392)
Adjustments for items not involving cash		
Amortization (note 3)	-	37,934
Share-based payments (note 6)	501,487	-
Accrued interest income	(17,008)	(77,742)
Foreign exchange loss	328,715	-
Impairment loss (note 5)	15,481	77,659
Loss on shares for debt settlement (note 6)	630,167	-
Gain on disposal of subsidiary (note 10)	(747,836)	-
Effect of foreign exchange on cash	23,669	74,998
	(1,855,096)	(884,543)
Net change in non-cash working capital		
Accounts receivable	(118,212)	4,467
Prepaid expenses	26,744	53,430
Accounts payable and accrued liabilities	229,067	90,737
Accrued tax provision	56,532	(18,719)
Net cash flows used in operating activities	(1,660,965)	(754,628)
Financing activities		
Issuance of share capital (note 6)	3,099,750	-
Share issuance costs (note 6)	(238,325)	-
Net cash flows from financing activities	2,861,425	-
Investing activities		
Cash disposed in sale of subsidiary (note 10)	(598)	-
Net cash used in investing activities	(598)	-
Increase (decrease) in cash and cash equivalents during the period	1,199,862	(754,628)
Cash and cash equivalents, beginning of the period	442,663	832,747
Cash and cash equivalents, end of the period	1,642,525	78,119

Supplemental cash flow information (note 8)

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

Gen III Oil Corporation (formerly PNG Gold Corporation)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Unaudited)

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Gen III Oil Corporation (formerly PNG Gold Corporation) (the “Company” or “Gen III Oil”) is incorporated under the laws of British Columbia.

In 2014 and 2015, the Company entered into agreements with VeroLube Inc. and its subsidiary, VeroLube Bowden Plant Inc. (collectively, “VeroLube”) to loan funds to VeroLube. These loans were not repaid and on April 4, 2016, the Company entered into a forbearance agreement (the “Forbearance Agreement”) with VeroLube. Under the Forbearance Agreement, the Company agreed to forbear from exercising its rights and remedies under the loan documents until December 31, 2016, conditionally upon VeroLube assigning the patents for its ReGen™ technology to the Company. If VeroLube did not repay the loans by December 31, 2016, the Company would retain ownership of the patents and would be able to exercise any and all remedies and recourses which were available to it against VeroLube. On January 3, 2017, the Company announced that it had granted a limited 30-day extension to its Forbearance Agreement with VeroLube. The extension, from December 31, 2016 to January 30, 2017, was granted subject to certain conditions being met by VeroLube, including: the delivery to the Company of three originally executed copies of the patent license agreement, and delivery to the Company of such documents as it may require to effect absolute assignment of the patents, both as provided for in the Forbearance Agreement. All other terms and conditions of the Forbearance Agreement remained in full force and effect. On January 15, 2017, VeroLube assigned the patents for the ReGen™ technology to the Company. The Company currently holds four (4) ReGen™ patents that have been granted in North America and has applied to have the name changed from the original inventor to the Company on two (2) other ReGen™ patents that have been granted in India and Singapore. The Company also holds twelve (12) other ReGen™ patent applications world-wide that have either been allowed, are pending, are under review or are in the process of being resurrected from abandoned status. These ReGen™ patents provide protection over the ReGen™ technology.

On March 31, 2017, the Company sold its wholly owned subsidiary, NMC Mining Corp, which indirectly held the Company’s mineral interests in Papua New Guinea.

On April 17, 2017, the Company submitted a change of business application to the TSX Venture Exchange to change its principal business activities to an industrial oil company and is currently waiting for approval from the TSX Venture Exchange. On May 11, 2017, the Company changed its name to Gen III Oil Corporation.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a “going concern”, which assumes that the Company will continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. At June 30, 2017, the Company had a working capital of \$1,017,147, had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the six months ended June 30, 2017, the Company reported a comprehensive loss of \$2,191,455 and as at June 30, 2017, had an accumulated deficit of \$74,729,332. The Company has not generated revenues from operations. The Company is dependent on equity financings to fund its operations. Based on its current plans, budgeted expenditures, and cash requirements, the Company has sufficient cash to finance its current plans for at least 12 months from June 30, 2017.

The Company’s address is Suite 910 – 1050 West Pender Street, Vancouver, B.C. V6E 3S7, Canada.

Gen III Oil Corporation (formerly PNG Gold Corporation)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Unaudited)

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2. BASIS OF PREPARATION

(a) Statement of Compliance

These unaudited consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”) effective for the Company’s reporting period ending December 31, 2017. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2016, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB. The accounting policies applied are the same as those applied in the Company’s most recent annual financial statements which are filed under the Company’s profile on SEDAR at www.sedar.com. The results for interim periods are not necessarily indicative of results for the entire year. The preparation of these unaudited condensed consolidated interim financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of expenses during the period. As a result, actual amounts may differ from those estimates.

These condensed consolidated interim financial statements for the three and six months ended June 30, 2017 were approved and authorized for issue by the Board of Directors on August 3, 2017.

(b) Principles of Consolidation

The condensed consolidated interim financial statements include the financial statements of the Company, and its wholly owned subsidiary, NMC Mining Corp, a corporation existing under the federal laws of Canada, which in turn wholly owns NMC Mining (Barbados) Corp. and Normanby Mining Corp., corporations existing under the laws of Barbados, Normanby Mining PNG Limited (“Normanby PNG”), a corporation existing under the laws of Papua New Guinea (collectively, the “Group”) up to March 31, 2017. The Company sold NMC Mining Corp on March 31, 2017.

(c) New accounting pronouncements

The Company is currently evaluating the following standards not yet in effect and has not yet determined the impact on its financial position and results of operations:

IFRS 15, Revenue from Contracts with Customers – On May 28, 2014, the IASB issued IFRS 15 that provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

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Notes to the Condensed Consolidated Interim Financial Statements

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2. BASIS OF PREPARATION (continued)

IFRS 16, Leases - On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses). The standard is effective for annual periods beginning after December 15, 2019 (i.e., calendar periods beginning on January 1, 2020), and interim periods thereafter. Early adoption is permitted.

3. PROPERTY AND EQUIPMENT

	Computer and Equipment \$	Furniture \$	Land \$	Drilling Equipment \$	Total \$
Cost					
Balance as at December 31, 2014	38,741	142,104	8,328	1,630,517	1,819,690
Fully depreciated write off	-	(69,328)	-	-	(69,328)
Impairment	(38,741)	(72,776)	-	(887,653)	(999,170)
Foreign exchange movement	-	-	-	38,703	38,703
Balance as at December 31, 2015	-	-	8,328	781,567	789,895
Disposal	-	-	-	(519,994)	(519,994)
Impairment	-	-	-	(162,504)	(162,504)
Foreign exchange movement	-	-	-	(99,069)	(99,069)
Balance as at December 31, 2016 and June 30, 2017	-	-	8,328	-	8,328
Accumulated amortization					
Balance as at December 31, 2014	31,748	105,064	-	323,557	460,369
Amortization	2,545	7,356	-	219,235	229,136
Fully depreciated write off	-	(69,328)	-	-	(69,328)
Impairment	(34,293)	(43,092)	-	(292,556)	(369,941)
Foreign exchange movement	-	-	-	7,357	7,357
Balance as at December 31, 2015	-	-	-	257,593	257,593
Amortization	-	-	-	56,740	56,740
Disposal	-	-	-	(213,225)	(213,225)
Impairment	-	-	-	(66,623)	(66,623)
Foreign exchange movement	-	-	-	(34,485)	(34,485)
Balance as at December 31, 2016 and June 30, 2017	-	-	-	-	-
Carrying amounts					
Balance as at December 31, 2016 and June 30, 2017	-	-	8,328	-	8,328

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3. PROPERTY AND EQUIPMENT (continued)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Allocation of amortization	\$	\$	\$	\$
Amortization	-	-	-	-
Exploration	-	18,660	-	37,934
Total amortization	-	18,660	-	37,934

To ensure that the Company's assets are carried at no more than their recoverable amount, which is the higher of the amount to be recovered through use of the asset (Value In Use – "VIU") and the amount to be recovered through sale of the asset (Fair Value Less Cost Of Disposal – "FVLCD"), the Company performed an impairment analysis in accordance with IFRS 6 and IAS 36. If an asset is carried at more than its recoverable amount, the asset is impaired and IAS 36 requires an entity to recognize an impairment loss. The recoverable amount of each asset was determined based on the FVLCD approach. Estimates of fair value were based on recent observable market transactions or replacement costs for items similar in nature and condition to those impaired.

As at September 30, 2016, the Company determined that there were indicators of impairment for its drilling equipment. The indicators of impairment resulted from the economic uncertainty in general and the downturn in the mining industry in particular, and the Company's decision to significantly reduce future exploration expenditures until the equity market for resource companies improves. As a result, the Company recorded an impairment loss of \$95,881 (2015 - \$595,097) on drilling equipment for the nine months ended September 30, 2016. On November 7, 2016, the Company sold its drilling equipment for net proceeds of \$229,935 and recorded a loss on sale of \$76,478.

4. MINERAL INTERESTS

On March 31, 2017, the Company sold its wholly owned subsidiary, NMC Mining Corp, which indirectly held the Company's mineral interests in Papua New Guinea. Consequently, the Company did not incur any exploration expenses subsequent to March 31, 2017. The cumulative exploration expense on the Company's mineral interest properties are set out in the tables below.

	Papua New Guinea		
	Normanby	Sehulea	Total
	\$	\$	\$
Exploration expense:			
Administration	10,693	164	10,857
Consulting	561	-	561
Transportation	620	207	827
Wages	10,167	1,595	11,762
Three months ended March 31, 2017	22,041	1,966	24,007
Cumulative to December 31, 2016	25,518,217	2,465,447	27,983,664
Cumulative to March 31, 2017	25,540,258	2,467,413	28,007,671

Gen III Oil Corporation (formerly PNG Gold Corporation)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016**(Unaudited)**

(Expressed in Canadian dollars)

4. MINERAL INTERESTS (continued)

	Papua New Guinea		
	Normanby	Sehulea	Total
	\$	\$	\$
Exploration expense:			
Administration	12,507	1,623	14,130
Consulting	5,781	900	6,681
Equipment	9,353	9,343	18,696
Legal	1,893	1,893	3,786
Transportation	3,057	1,019	4,076
Travel	501	167	668
Wages	12,935	2,448	15,383
Three months ended June 30, 2016	46,027	17,393	63,420
Three months ended March 31, 2016	80,842	32,558	113,400
Cumulative to December 31, 2015	25,329,630	2,397,342	27,726,972
Cumulative to June 30, 2016	25,456,499	2,447,293	27,903,792

	Papua New Guinea		
	Normanby	Sehulea	Total
	\$	\$	\$
Exploration expense:			
Administration	40,494	3,339	43,833
Assaying	18,011	8,612	26,623
Consulting	10,405	6,555	16,960
Equipment	19,713	19,642	39,355
Legal	4,169	4,169	8,338
Transportation	5,176	1,725	6,901
Travel	901	300	1,201
Wages	28,000	5,609	33,609
Six months ended June 30, 2016	126,869	49,951	176,820
Cumulative to December 31, 2015	25,329,630	2,397,342	27,726,972
Cumulative to June 30, 2016	25,456,499	2,447,293	27,903,792

The two year term of the Sehulea exploration license expired on January 5, 2016. In October 2015, the Company applied for a further two year renewal from January 5, 2016 of the Sehulea exploration license with an estimated exploration expenditure commitment totaling \$124,000. The two year term of the Normanby exploration license expired on April 24, 2016. In January 2016, the Company applied for a further two year renewal from April 24, 2016 of the Normanby exploration license with an estimated exploration expenditure commitment totaling \$179,000. The Company was informed by the Mineral Resources Authority of PNG ("MRA") on October 4, 2016 that both of its exploration license renewal applications were refused and were not renewed. The refusal notice was signed by the PNG Minister for Mining on September 1, 2016. The Company had previously renewed the licenses without any issues. The Company completed a work program in November 2015 and earlier in 2016 its representative met with various parties in Papua New Guinea who indicated no issues with the license renewal process. The Company has pursued this matter to no avail. Currently, the only recourse is to pursue the ultimate successful bidder of the licenses, who had previously signed a non-disclosure agreement with the Company.

Gen III Oil Corporation (formerly PNG Gold Corporation)

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016

(Unaudited)

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4. MINERAL INTERESTS (continued)

As a result of the refusal to renew the exploration licenses, the Company has lost its exploration rights and ownership of the mineral interests. As at September 30, 2016, the Company evaluated its mineral interests for impairment and wrote off the full amount of the carrying value of \$216,819. As the Company no longer has exploration rights and ownership of the mineral interests, the recoverable amount was determined to be \$nil.

5. RELATED PARTY TRANSACTIONS

Transactions with related parties are measured at the exchange amount established and agreed to by the related parties. Key Management personnel includes the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer and the Directors.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Salaries to Key Management personnel	143,750	118,675	275,000	378,535
Payments for consulting services to a company controlled by current President	45,000	-	77,500	-
Payments for consulting services to a company controlled by Chief Operating Officer	7,125	-	7,125	-
Payments for consulting services to a company controlled by Chief Financial Officer	13,112	-	20,462	-
Severance to former President	-	57,000	-	57,000
Professional fees to company controlled by Director	25,000	-	70,000	-
Total	233,987	175,675	450,087	435,535

On Feb 9, 2017, the Chief Executive Officer and a director purchased 1,300,000 and 250,000 units, respectively of the Company's second tranche of a non-brokered private placement (the "Offering"). The Offering consisted of the issuance of a total of 6,450,000 units (the "Units") at a price of \$0.10 per Unit for gross proceeds of \$645,000. Each Unit consists of one common share and one-half of one warrant ("Warrant") with each whole Warrant entitling the holder to acquire one common share at a price of \$0.30 per share until February 6, 2018.

On April 19, 2017, the Company settled \$318,526 of directors and officers compensation in exchange for 1,873,679 common shares at a deemed price of \$0.17 per share.

In addition to the related party transactions noted above, the Company reimbursed all these related parties for out-of-pocket direct costs incurred on behalf of the Company. Such costs include travel, postage, courier charges, printing and telephone charges.

On July 7, 2014, the Company entered into an agreement with VeroLube to loan \$140,000 to VeroLube Bowden Plant Inc. On November 28, 2014, The Company and VeroLube entered into the VeroLube Loan for \$500,000 that included the previous \$140,000 loaned. The Company's Chief Executive Officer served as director of VeroLube Inc. until January 23, 2017.

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Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2017 and 2016**(Unaudited)**

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5. RELATED PARTY TRANSACTIONS (continued)

On December 31, 2015, the Company performed an impairment assessment on the VeroLube Loan and the Investment in Verolube Inc. taking into consideration Verolube Inc.'s financial condition and the likelihood of Verolube Inc. repaying the loan. The Company determined that expected future cash flow from these two financial instruments was \$nil and consequently, the Company fully impaired the carrying value of the VeroLube loan (\$747,006) and Investment in Verolube Inc. (\$45,880) for the year ended December 31, 2015.

The following provides information on the outstanding amounts of the VeroLube Loan.

	\$
Balance as at December 31, 2014	471,829
Fair value of funds advanced	112,613
Accretion	162,564
Impairment	(747,006)
Balance as at December 31, 2015	-
Accretion	164,375
Impairment	(164,375)
Balance as at December 31, 2016	-
Accretion	15,481
Impairment	(15,481)
Balance as at June 30, 2017	-

The VeroLube Loan was not repaid and on April 4, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with VeroLube. Under the Forbearance Agreement, the Company agreed to forbear from exercising its rights and remedies under the loan documents, conditionally upon VeroLube assigning the patents for its ReGen™ technology to the Company and issuing 305,875 common shares of VeroLube to the Company on or before May 31, 2016. If VeroLube did not fulfill those conditions, the Company was free to exercise its rights and remedies under the loan documents as it saw fit. The Forbearance Agreement provided that if VeroLube did fulfill those conditions, it was required to repay the loans on or before December 31, 2016. If VeroLube did repay the loans by that date, then the Company would reassign the Patents to VeroLube, and VeroLube would grant the Company a non-exclusive, perpetual license to use the ReGen™ technology worldwide. If VeroLube did not repay the loans by that date, the Company would retain ownership of the patents and would be able to exercise any and all remedies and recourses which were available to it against VeroLube. VeroLube did not fulfilled these conditions.

On January 3, 2017, the Company announced that it had granted a limited 30-day extension to its Forbearance Agreement with VeroLube. The extension, from December 31, 2016 to January 30, 2017, was granted subject to certain conditions being met by VeroLube, including: the delivery to the Company of three originally executed copies of the patent license agreement, and delivery to the Company of such documents as it may require to effect absolute assignment of the patents, both as provided for in the Forbearance Agreement. All other terms and conditions of the Forbearance Agreement remained in full force and effect. On January 15, 2017, VeroLube assigned the patents for the ReGen™ technology to the Company.

On February 3, 2017, the Company issued a demand to VeroLube for repayment of all outstanding loan amounts and accrued and unpaid interest. The Company also provided notice to VeroLube that it was proceeding to enforce its security over the VeroLube patents and personal property. VeroLube failed to repay the outstanding loan amounts and the Company fully exercised its rights.

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(Unaudited)

(Expressed in Canadian dollars)

5. RELATED PARTY TRANSACTIONS (continued)

On November 7, 2016, the Company sold its drilling equipment for net proceeds of \$229,935 and recorded a loss on sale of \$76,478 for the year ended December 31, 2016. The sale of the drilling equipment was made to a related party of the Company, which had two common directors with the Company.

Included in accounts payable and accrued liabilities as at June 30, 2017 is \$82,500 (December 31, 2016 - \$268,128) of accrued directors' fees, \$nil (December 31, 2016 - \$50,400) of accrued salaries payable to the current President and \$nil (December 31, 2016 - \$4,000) of accrued expense allowance payable to the Chief Executive Officer.

6. SHARE CAPITAL

(a) Authorized: Unlimited common shares without par value
Unlimited number of preferred shares without par value

(b) Issued and outstanding:

	Number of common shares	\$
December 31, 2014 and 2015	26,233,657	63,540,233
Private placement	5,550,000	555,000
Share issuance costs	-	(53,268)
December 31, 2016	31,783,657	64,041,965
Private placement	14,132,500	2,949,750
Debt settlement (note 5)	2,032,797	975,743
Exercise of warrants	500,000	150,000
Share issuance costs	-	(238,325)
June 30, 2017	48,448,954	67,879,133

Effective November 11, 2016, the Company consolidated its share capital and stock options, on a 5-to-1 basis. In accordance with IAS 10 and IAS 33, the Company's comparative basic and diluted loss per share presented in its condensed consolidated interim statements of loss and comprehensive loss for the three and six months ended June 30, 2016, has been computed based on the post consolidated weighted average number of common shares outstanding.

On December 13, 2016, the Company closed the first tranche of a non-brokered private placement that was announced on November 29, 2016 (the "Offering") and subsequently amended to raise up to \$1.2 million. The closing consisted of the issuance of a total of 5,550,000 Units at a price of \$0.10 per Unit for gross proceeds of \$555,000. Each Unit consists of one common share and one-half of one Warrant with each whole Warrant entitling the holder to acquire one common share at a price of \$0.30 per share until December 12, 2017. In the event the common shares of the Company have a closing trading price of \$0.30 or higher for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the Warrants to a date that is 30 days from the date the Company provides notice to the holders. In connection with the closing of the first tranche of the Offering, the Company paid an aggregate amount of \$23,600 in cash finder's fees to eligible arm's length finders and incurred \$29,668 in legal fees.

6. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued):

On February 9, 2017, the Company closed the final tranche of the Offering consisting of 6,450,000 Units at a price of \$0.10 per Unit for gross proceeds of \$645,000. The 3,225,000 Warrants issued for this final tranche expire on February 6, 2018. In connection with the closing of the final tranche of the Offering, the Company paid an aggregate amount of \$36,500 in cash finder's fees to eligible arm's length finders and incurred \$4,629 in legal fees.

On March 13, 2017, the Company closed a non-brokered private placement of common shares at a price of \$0.30 per share. Under the private placement, the Company issued 7,682,500 shares for gross proceeds of \$2,304,750. In connection with the closing of the private placement, the Company paid an aggregate amount of \$184,380 in cash finder's fees to eligible arm's length finders and incurred \$12,816 in legal fees.

On April 19, 2017, the Company settled \$345,576 in debt in exchange for 2,032,797 common shares at a deemed price of \$0.17 per share. The fair value of the shares was recorded as \$0.48 per share, which was the April 19, 2017 closing price of the shares on the TSX Venture Exchange. The difference between \$0.48 and \$0.17, \$630,167, was recognized as loss on shares for debt settlement for the three and six months ended June 30, 2017.

During the three months ended June 30, 2017, 500,000 warrants, at an exercise price of \$0.30 per warrant, were exercised for gross proceeds of \$150,000.

(c) Stock Options and Share-Based Payments

Stock options granted during the six months ended June 30, 2017 (2016 – nil) to the Company's officers, directors and consultants were as follows:

- (1) On February 8, 2017, 3,075,000 options were granted at an exercise price of \$0.17, expiring on February 8, 2019. These stock options were fully vested on the date of grant.
- (2) On April 1, 2017, 300,000 stock options were granted at an exercise price of \$0.46, expiring on April 1, 2019. On April 30, 2017, 200,000 of the unvested stock options were forfeited due to the termination of the officer's employment. The remaining 100,000 vested options were not exercised and expired on July 29, 2017.
- (3) On May 17, 2017, the Company granted an aggregate of 180,000 stock options at an exercise price of \$0.72, expiring on May, 17, 2019. 40,000 options vested on the date of grant. 140,000 options will vest on November 1, 2017.
- (4) On June 1, 2017, the Company granted an aggregate of 300,000 stock options at an exercise price of \$0.72, expiring on June 1, 2019. The vesting periods are as follows:
 - 100,000 on September 1, 2017
 - 100,000 on December 1, 2017
 - 100,000 on June 1, 2018

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6. SHARE CAPITAL (continued)

(c) Stock Options and Share-Based Payments (continued)

The aggregate fair value of the stock options granted was \$591,815, of which \$501,487 was recognized as share-based compensation for the six months ended June 30, 2017 (2016 - \$nil). The fair value of the stock options was estimated at the grant date using the Black-Scholes Option Pricing Model. The inputs for the Black-Scholes Option Pricing Model are as follows:

	Date of Grant			
	February 8, 2017	April 1, 2017	May 17, 2017	June 1, 2017
Risk free interest rate	0.69%	0.74%	0.65%	0.69%
Expected dividend yield	nil	nil	nil	nil
Expected annual volatility	73%	33%	68%	69%
Expected life	1 year	3 months	1 year	1 year
Forfeiture rate	nil	nil	10%	10%

A summary of the status of the Company's stock options as at June 30, 2017 and changes during the period are as follows:

	Number of options	Weighted average exercise price \$
Outstanding and fully vested – December 31, 2015	7,250,000	0.42
Options expired	(3,475,000)	0.50
Options expired	(100,000)	0.57
Options expired	(1,075,000)	0.35
	2,600,000	0.34
Share consolidation	(2,080,000)	1.70
Outstanding and fully vested – December 31, 2016	520,000	1.70
Options granted	3,855,000	0.24
Options forfeited	(200,000)	0.46
Outstanding – June 30, 2017	4,175,000	0.44

(d) Warrants

As at June 30, 2017, there were 5,500,000 warrants outstanding of which, 2,275,000 expire on December 12, 2017 and 3,225,000 expire on February 6, 2018. Each warrant entitles the holder to acquire one common share at a price of \$0.30 per share. In the event the common shares of the Company have a closing trading price of \$0.30 or higher for a period of 20 consecutive trading days, the Company may accelerate the expiry date of the warrants to a date that is 30 days from the date the Company provides notice to the holders. The Company used the residual value method to allocate all of the value received to shares and therefore, no value was allocated to the warrants.

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6. SHARE CAPITAL (continued)

(e) Reserves

Contributed surplus

Share-based payments are recognized in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount in contributed surplus is reclassified to share capital, adjusted for any consideration paid.

Cumulative translation adjustments

The exchange difference on translating the foreign operation from its functional currency (PNG Kina) into the reporting currency (Canadian dollar) is recognized in cumulative translation adjustment.

Unrealized gain (loss) on available-for-sale investments

Financial assets classified as available-for-sale investments are measured at fair value with unrealized gains and losses being recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary.

7. COMMITMENTS

The Company has rented an office in Calgary on a month to month basis for \$4,300 per month.

On February 28, 2017 the Company announced that it has entered into a letter of intent ("LOI") for a Lease with Parkland Refining Limited ("Parkland") for the portion of their property in Bowden, Alberta. The Company paid a non-refundable payment of \$150,000, which was expensed for the three and six months ended June 30, 2017. The transactions contemplated by the LOI are subject to customary conditions, including completion of due diligence, receipt of all required third party approvals for the Lease and related matters and corporate approvals of each of Parkland and the Company.

On March 7, 2017, the Company entered into a 37 month lease agreement for its new corporate head office that has a total remaining commitment of \$297,030. The remaining commitments for the years ending December 31, 2017, 2018, 2019 and 2020 are \$47,794, \$98,463, \$100,515, \$50,258, respectively.

On March 31, 2017, the Company signed a 3 month contract for investor relations services commencing on April 10, 2017 at \$7,500 per month.

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.

8. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Operating activities				
Interest income received from banks	4,508	601	5,237	1,323

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9. GEOGRAPHICAL AREA INFORMATION

	Canada \$	Papua New Guinea \$	Total \$	
June 30, 2017				
Property and equipment	8,328	-	8,328	
Total assets	1,926,188	-	1,926,188	
December 31, 2016				
Property and equipment	8,328	-	8,328	
Total assets	586,535	1,150	587,685	
	Three months ended June 30,		Six months ended June 30,	
	2017 \$	2016 \$	2017 \$	2016 \$
Net loss – Canada	1,813,967	268,333	2,562,212	811,571
Net loss – Papua New Guinea	-	68,973	27,559	185,821
Net loss - Australia	-	-	-	-
Total net loss	1,813,967	337,306	2,589,771	997,392

10. GAIN ON DISPOSAL OF SUBSIDIARY

On March 31, 2017, the Company sold its wholly owned subsidiary, NMC Mining Corp for gross proceeds of one dollar plus future recoveries that are contingent upon certain future events occurring. NMC Mining Corp indirectly held the Company's assets in Papua New Guinea. At the time of the sale, NMC Mining Corp had net liabilities of \$747,835 and as a result, the Company recorded a gain of \$747,836 for the six months ended June 30, 2017 (2016 - \$nil).

11. SUBSEQUENT EVENTS

On April 1, 2017, 300,000 stock options were granted at an exercise price of \$0.46, expiring on April 1, 2019. On April 30, 2017, 200,000 of the unvested stock options were forfeited due to the termination of the officer's employment. The remaining 100,000 vested options were not exercised and expired on July 29, 2017.