Gen III Oil Corporation (formerly PNG Gold Corporation)

Consolidated Financial Statements
For the Year Ended December 31, 2017
(Expressed in Canadian dollars)

For the Year Ended December 31, 2017 | **Page**

Management’s Report

The accompanying consolidated financial statements of Gen III Oil Corporation (the “Company”) are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) as outlined in Part 1 of the Chartered Professional Accountants of Canada Handbook - Accounting, and include some amounts that are based on management’s estimates and judgment.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee. The Audit Committee reviews the Company’s annual consolidated financial statements and recommends its approval to the Board of Directors. The Company’s auditors have full access to the Audit Committee, with and without management being present. These consolidated financial statements have been audited by Ernst & Young LLP, Chartered Professional Accountants.

(Signed) Greg Clarkes	(Signed) Rick Low
Chief Executive Officer	Chief Financial Officer

Vancouver, British Columbia, Canada

April 16, 2018

Independent auditors' report

To the Shareholders of
Gen III Oil Corporation

We have audited the accompanying consolidated financial statements of **Gen III Oil Corporation**, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in equity (deficit) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Gen III Oil Corporation** as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP
Chartered Professional Accountants

Vancouver, Canada
April 16, 2018

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

	December 31, 2017	December 31, 2016
	$	$
ASSETS		
Current		
Cash and cash equivalents	6,284,891	442,663
Accounts receivable	100,428	28,040
Prepaid expenses	183,062	78,033
	6,568,381	548,736
Property and equipment (note 4)	8,328	8,328
Investments (note 6)	57,415	30,621
Total assets	**6,634,124**	**587,685**
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 7)	900,490	760,024
Accrued tax provision	161,000	872,833
	1,061,490	1,632,857
Shareholders' Equity (Deficit)		
Share capital (note 8)	74,796,282	64,041,965
Contributed surplus	8,181,029	7,374,187
Accumulated deficit	(77,462,092)	(72,139,561)
Accumulated other comprehensive income (loss)		
Cumulative translation adjustments	-	(352,384)
Unrealized gain on available-for-sale investments	57,415	30,621
Total shareholders' equity (deficit)	5,572,634	(1,045,172)
Total liabilities and shareholders' equity (deficit)	**6,634,124**	**587,685**

Nature of operations (note 1)
Commitments (note 12)
Subsequent events (note 17)

Approved on behalf of the Board of Directors:

"Greg Clarkes"	***"Larry Van Hatten"***
Greg Clarkes, Director	Larry Van Hatten, Director

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

Gen III Oil Corporation (formerly PNG Gold Corporation)
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

	2017 $	2016 $
Expense		
Exploration (note 5)	24,007	256,692
General and administration	543,497	228,820
Investor relations	66,081	18,063
Professional fees	2,592,155	475,350
Salaries and benefits (note 7)	1,154,308	786,292
Share-based payments (note 8)	611,899	-
Travel and accommodation	152,221	10,690
	5,144,168	1,775,907
Other (income) expense		
Interest income (note 7)	(49,494)	(175,306)
Foreign exchange loss (gain)	330,045	(1,179)
Loss on disposal of property and equipment (4)	-	76,478
Impairment loss (note 9)	15,481	477,075
Loss on shares for debt settlement (note 8)	630,167	-
Gain on disposal of subsidiary (note 15)	(747,836)	-
	178,363	377,068
Net loss for the year	5,322,531	2,152,975
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	(26,794)	(7,655)
Exchange difference on translating foreign operations	-	9,223
Reallocation of exchange difference on translating foreign operations	(352,384)	-
	(379,178)	1,568
Total comprehensive loss for the year	4,943,353	2,154,543
Loss per share – basic and diluted	0.11	0.08
Weighted average number of shares outstanding - basic and diluted	48,492,276	26,536,936

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

(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
Issuance of share capital (note 8)	555,000	-	-	-	-	555,000
Share issuance costs (note 8)	(53,268)	-	-	-	-	(53,268)
Loss for the year	-	-	(2,152,975)	-	-	(2,152,975)
Other comprehensive income (loss)	-	-	-	(9,223)	7,655	(1,568)
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 8)	12,018,734	-	-	-	-	12,018,734
Share issuance costs (note 8)	(1,264,417)	194,943	-	-	-	(1,069,474)
Share-based payments (note 8)	-	611,899	-	-	-	611,899
Loss for the year	-	-	(5,322,531)	-	-	(5,322,531)
Other comprehensive income	-	-	-	352,384	26,794	379,178
Balance as at December 31, 2017	74,796,282	8,181,029	(77,462,092)	-	57,415	5,572,634

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

Gen III Oil Corporation (formerly PNG Gold Corporation)
Consolidated Statements of Cash Flows
For the year ended December 31, 2017 and 2016
(Expressed in Canadian dollars)

	2017	2016
	$	$
Operating activities		
Net loss for the year	(5,322,531)	(2,152,975)
Adjustments for items not involving cash		
Amortization (note 4)	-	56,740
Share-based payments (note 8)	611,899	-
Accrued interest income	(23,279)	(164,613)
Loss on disposal of property and equipment	-	76,478
Foreign exchange loss	330,045	-
Impairment loss (note 9)	15,481	477,075
Loss on shares for debt settlement (note 8)	630,167	-
Gain on disposal of subsidiary (note 15)	(747,836)	-
Effect of foreign exchange on cash	22,339	55,717
	(4,483,715)	(1,651,578)
Net change in non-cash working capital		
Accounts receivable	(64,876)	(15,637)
Prepaid expenses	(105,029)	(8,839)
Accounts payable and accrued liabilities	597,397	510,922
Accrued tax provision	(74,468)	43,381
Net cash flows used in operating activities	(4,130,691)	(1,121,751)
Financing activities		
Issuance of share capital (note 8)	10,730,700	555,000
Share issuance costs (note 8)	(757,183)	(53,268)
Net cash flows from financing activities	9,973,517	501,732
Investing activities		
Disposal of property and equipment	-	229,935
Cash disposed in sale of subsidiary (note 15)	(598)	-
Net cash (used in) from investing activities	(598)	229,935
Increase (decrease) in cash and cash equivalents during the year	5,842,228	(390,084)
Cash and cash equivalents, beginning of the year	442,663	832,747
Cash and cash equivalents, end of the year	6,284,891	442,663

Supplemental cash flow information (note 13)

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

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 and is extra provincially registered in Alberta.

The Company currently holds four (4) ReGen™ patents that have been issued in North America and two (2) other ReGen™ patents that have been issued in India and Singapore. The Company also holds ten (10) other ReGen™ patent applications world-wide that are pending, including one (1) provisional patent application in the United States to encompass the technological advancements in hydro-treating technology since the patent applications were filed by the original inventor. These ReGen™ patents provide protection over the ReGen™ technology. The Company's patented ReGen™ technology process combines proven refining technologies into a proprietary process that is able to extract a higher quantity of high quality base lubricating oils than traditional re-refineries, including greater than 50% Group III production of synthetic grade motor oil in a commercial scale re-refining operation. The Company's first full-scale facility is currently under development in Bowden, Alberta, 100km north of Calgary, with targeted production commencing in Q1 of 2019. With a fully executed off-take marketing agreement in hand with Elbow River Marketing Ltd., a subsidiary of Parkland Fuel Corporation, the Company has in place agreements for the sale of all of its finished products when commercial production begins at its Bowden facility. The Bowden facility is being designed to process 2,800 barrels per day of used motor oil into a range of base stocks and related petroleum products.

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.

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 May 11, 2017, the Company changed its name to Gen III Oil Corporation and on October 17, 2017, the TSX Venture Exchange approved the Company's change of business to become an industrial oil company.

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 December 31, 2017, the Company had working capital of $5,506,891, had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the year ended December 31, 2017, the Company reported a comprehensive loss of $4,943,353 and as at December 31, 2017, had an accumulated deficit of $77,462,092. The Company has not generated revenues from operations. The Company is dependent

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

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 December 31, 2017

The Company's address is Suite 1750 - 400 Burrard St. Vancouver, B.C., V6C 3A6, Canada.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Standards Interpretations Committee ("IFRIC").

These consolidated financial statements have been prepared on a historical cost basis, except investments that have been measured at fair market value.

These consolidated financial statements for the year ended December 31, 2017 were approved and authorized for issue by the Board of Directors on April 16, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, and its wholly owned subsidiary, Gen III Oil (Alberta) Inc., a corporation existing under the provincial laws of Alberta, 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 and its subsidiaries on March 31, 2017.

(b) Foreign Currency Translation

The presentation currency of the Company is the Canadian dollar, which is the same as the functional currency of the parent.

The functional currency of the Company and each of its subsidiaries are determined based on the currency of the primary economic environment in which that entity operates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign Currency Translation (continued)

Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Parent and Subsidiary Companies:

The financial results and position of foreign operations whose functional currency is different from the reporting currency are translated as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that financial period end;
- income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- equity transactions are translated using the exchange rate at the date of the transaction; and
- all resulting exchange differences are recognized in other comprehensive income and reported as a separate component of equity.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with financial institutions that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

(d) Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses or at the lower of their carrying value and estimated recoverable amount. The cost of an item consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property and Equipment (continued)

Depreciation is provided for at the following rates:

Assets – Corporate head office	**Rate**
Computer equipment	55% declining balance method
Furniture	20% declining balance method

Assets – Normanby PNG	**Rate**
Drilling equipment	7 years, straight-line method

An item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statements of loss and comprehensive loss.

Where an item of property and equipment is comprised of major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

The residual values, useful lives, and methods of depreciation are reviewed at each reporting period and adjusted prospectively if appropriate.

(e) Impairment of Non-Financial Assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount, net of amortization, that would have been determined had no prior impairment loss been recognized for the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments

Financial Assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Regular way purchases and sales of FVTPL financial assets are accounted for at trade date, as opposed to settlement date. The Company's cash and cash equivalents are classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company's accounts receivable are classified as loans-and-receivables and investments are classified as available-for-sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial Liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities. Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period of maturity. The effective interest rate is the rate that exactly discounts estimated future cash payments to the carrying value through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through profit and loss. The Company has not classified any financial liabilities as FVTPL.

A financial liability is derecognized when the associated obligation is discharged, cancelled or expired.

Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments (continued)

carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from accumulated other comprehensive income (loss) to profit or loss. Management reviews the fair value of its marketable securities at the end of each reporting period. When the securities are trading below their cost for a prolonged period of time or the decline in value is significant, it is considered impaired. Reversals of impairment in respect of equity instruments classified as available-for-sale are recognized in other comprehensive income (loss) and are not recognized in profit or loss.

(g) Rehabilitation Provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related asset. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks. Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. As at December 31, 2017, the Company has not incurred any legal or constructive obligations that require a rehabilitation provision.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income Taxes

(i) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred tax

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss).

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income Taxes (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Such deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances arises. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or recognized in profit or loss thereafter.

(i) Share Capital

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company’s common shares, options and share warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares, options, or warrants are shown in equity as a deduction, net of tax, from the proceeds.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing price on the announcement date. The balance, if any, was allocated to the attached warrants.

In situations where share capital is issued, or received, as non-monetary consideration and the fair value of the asset or services received, or given up is not readily determinable, the fair market value (as defined) of the shares is used to record the transaction. The fair market value of the shares issued, or received, is based on the trading price of those shares on the appropriate Exchange on the date the shares are issued.

(j) Loss Per Share

Basic loss per share is computed by dividing the net loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted loss per common share is computed by dividing the net loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Loss Per Share (continued)

shares that would have been outstanding, if potentially dilutive instruments were converted.

Basic and diluted loss per share are the same, as under the treasury stock method, the effect of common shares issuable upon the exercise of stock options would be anti-dilutive.

(k) Share-based Payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit and loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit and loss over the remaining vesting period.

When equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received, unless the fair value of the goods and services received cannot be reasonably measured, in which case they are measured using the equity instruments issued. Expenses are recorded in the statement of comprehensive loss. Amounts related to the cost of issuing shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity instrument except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Segmented Reporting

The Company operates in, and parent's head office is located in, Canada.

(m) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in profit or loss on a straight-line basis over the lease term.

(n) Significant Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to the valuation of equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Significant Accounting Estimates and Judgments (continued)

Critical accounting estimates (continued)

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they were granted. Estimating the fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, and dividend yield and making assumptions about them.

Critical accounting judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

The determination of impairment of available-for-sale financial assets. The Company determined that certain of its investments were impaired during the current and prior years (see note 6).

(o) New Accounting Pronouncements

The following are standards not yet in effect and the impact they will have on the Company's 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. The Company has not generated any revenues but expects to generate revenues after its Bowden plant becomes operational in Q1 2019. The Company will adopt this standard on January 1, 2018 and will account for revenues under this standard.

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. The Company will adopt this standard on January 1, 2018 and does not expect it to have any material impact on its financial position and results of operations.

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

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) New Accounting Pronouncements (continued)

interim periods thereafter. Early adoption is permitted. The Company has office leases and has entered into a plant lease for the Bowden plant in January 2018. Upon adoption of this standard, the Company will account for such leases on its balance sheet as right-of-use assets and lease liabilities with corresponding interest expense in its results of operations.

4. PROPERTY AND EQUIPMENT

	Land $	Drilling Equipment $	Total $
Cost			
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 2017	8,328	-	8,328
Accumulated amortization			
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 2017	-	-	-
Carrying amounts			
Balance as at December 31, 2016 and 2017	8,328	-	8,328

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 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.

(Expressed in Canadian dollars)

5. 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

	Papua New Guinea		
	Normanby	Sehulea	Total
	$	$	$
Exploration expense:			
Administration	61,397	4,103	65,500
Assaying	18,011	8,612	26,623
Consulting	11,480	6,555	18,035
Equipment	30,146	29,344	59,490
Legal	6,652	6,652	13,304
Transportation	7,022	2,341	9,363
Travel	1,298	433	1,731
Wages	52,581	10,065	62,646
Year ended December 31, 2016	188,587	68,105	256,692
Cumulative to December 31, 2015	25,329,630	2,397,342	27,726,972
Cumulative to December 31, 2016	25,518,217	2,465,447	27,983,664

6. INVESTMENTS

The Company holds 3,827,646 shares of Coppermoly Ltd. ("COY"), initially valued at $440,102. Changes in fair value, based on the market price on the Australian Stock Exchange, are recorded in other comprehensive income. Changes in fair value are shown in the table below.

	$
December 31, 2015	22,966
Unrealized gain	7,655
December 31, 2016	30,621
Unrealized gain	26,794
December 31, 2017	57,415

(Expressed in Canadian dollars)

7. 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.

	Year ended December 31,	
	2017	**2016**
	$	**$**
Salaries to Key Management personnel	634,500	702,905
Payments for consulting services to a company controlled by current President	167,500	-
Payments for consulting services to a company controlled by former Chief Operating Officer	49,875	-
Payments for consulting services to a company controlled by Chief Financial Officer	20,462	-
Professional fees to company controlled by Director	101,000	60,000
Share-based payments	507,708	-
Total	1,481,045	762,905

Included in accounts payable and accrued liabilities as at December 31, 2017 is $165,000 (December 31, 2016 - $268,128) of accrued directors' fees, $11,062 (December 31, 2016 - $50,400) of accrued salaries payable to officers and a director and $13,053 (December 31, 2016 - $4,000) of accrued expense reimbursements payable to officers and a director.

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.

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.

On September 27, 2017, the Company's former Chief Operating Officer purchased 75,000 units of the Company's private placement described in note 8 (b).

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.

(Expressed in Canadian dollars)

7. RELATED PARTY TRANSACTIONS (continued)

The following were the transactions with VeroLube:

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.

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 December 31, 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.

(Expressed in Canadian dollars)

7. RELATED PARTY TRANSACTIONS (continued)

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.

8. 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, 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 placements	23,469,572	9,485,700
Debt settlement (note 5)	2,032,797	975,743
Exercise of warrants	4,150,000	1,245,000
Broker commissions and fees settled by issuance of shares	446,128	312,291
Share issuance costs	-	(1,264,417)
December 31, 2017	61,882,154	74,796,282

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 consolidated statements of loss and comprehensive loss for the year ended December 31, 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. All of these Warrants were exercised at $0.30 per share during the fourth quarter of 2017 and the Company received gross proceeds of $832,500.

8. 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. During 2017, 1,375,000 Warrants were exercised at $0.30 per share and the Company received gross proceeds of $412,500.

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.

On September 27, 2017, the Company issued an aggregate of 9,337,072 units at a price of $0.70 per unit for aggregate gross proceeds of $ 6,535,950. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at any time until September 27, 2019 at an exercise price of $1.00 per common share. In connection with the offering, the Company entered into an agency agreement with the agent dated effective September 27, 2017. At closing, the Company paid to the agent an aggregate of $397,226 cash, representing a portion of the agent's commission and all of the agent's related expenses (including legal fees). The agent elected to receive the agent's corporate finance fee and the balance of the agent's commission in units, and at closing the Company issued to the agent 446,128 units at a price of $0.70 per unit. In addition, the agent also subscribed for 322,211 units at a price of $0.70 per unit under the offering. The Company also issued to the agent 653,595 broker warrants of the Company. Each broker warrant entitles the agent to purchase one unit at any time until September 27, 2019 at a price of $0.70 per unit and each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the agent to purchase one common share at an exercise price of $1.00 at any time until September 27, 2019.

(Expressed in Canadian dollars)

8. SHARE CAPITAL (continued)

(c) Stock Options and Share-Based Payments

Stock options granted during the year ended December 31, 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 vested on November 1, 2017. 50,000 options were forfeited upon resignations of employees.

(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 options vest in three equal tranches on September 1, 2017, December 1, 2017, and June 1, 2018.

(5) On September 20, 2017, the Company granted 500,000 stock options at an exercise price of $0.70, expiring on September 20, 2019. The options will vest in two equal tranches on March 20, 2018 and September 20, 2018.

(6) On October 3, 2017, the Company granted 50,000 stock options at an exercise price of $0.74, expiring on October 3, 2019. The options will vest in two equal tranches on April 3, 2018 and October 3, 2018.

The aggregate fair value of the stock options granted was $679,430, of which $611,899 was recognized as share-based compensation for the year ended December 31, 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	September 20, 2017	October 3, 2017
Risk free interest rate	0.69%	0.74%	0.65%	0.69%	1.56%	1.52%
Expected dividend yield	nil	nil	nil	nil	nil	nil
Expected annual volatility	73%	33%	68%	69%	66%	66%
Expected life	1 year	3 months	1 year	1 year	1 year	1 year
Forfeiture rate	nil	nil	10%	10%	20%	20%

(Expressed in Canadian dollars)

8. SHARE CAPITAL (continued)

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

A summary of the status of the Company's stock options as at December 31, 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	4,405,000	0.32
Options forfeited	(250,000)	0.51
Options expired	(620,000)	1.54
Outstanding – December 31, 2017	4,055,000	0.30

The Company has the following stock options outstanding and exercisable:

2017				
Options Outstanding			Options Exercisable	
Number of options at December 31, 2017	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price $	Number of options at December 31, 2017	Weighted Average Exercise Price $
4,055,000	1.22	0.30	3,405,000	0.22

2016				
Options Outstanding			Options Exercisable	
Number of options at December 31, 2016	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price $	Number of options at December 31, 2016	Weighted Average Exercise Price $
520,000	0.65	1.75	520,000	1.75

8. SHARE CAPITAL (continued)

(d) Warrants

As at December 31, 2017, of the 6,000,000 warrants issued in connection with the Offering, 4,150,000 were exercised, 1,850,000 remain outstanding and will 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.

As at December 31, 2017, for the warrants issued in connection with the private placement on September 30, 2017, there were 4,891,598 warrants outstanding. Each warrant entitles the holder to purchase one common share at any time until September 27, 2019 at an exercise price of $1.00 per common share. 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.

As at December 31, 2017, for the broker warrants issued in connection with the private placement on September 30, 2017, there were 653,595 broker warrants outstanding. Each broker warrant entitles the holder to purchase one unit at any time until September 27, 2019 at a price of $0.70 per unit and each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $1.00 at any time until September 27, 2019. The aggregate fair value of the broker warrants issued was $194,943, which was recognized as share issue costs for the year ended December 31, 2017 (2016 - $nil). The fair value of the broker warrants was estimated at the issue date using the Black-Scholes Option Pricing Model. The inputs for the Black-Scholes Option Pricing Model are as follows:

Risk free interest rate	1.58%
Expected dividend yield	nil
Expected annual volatility	78%
Expected life	2 years

(e) Reserves

Contributed surplus
Share-based payments and warrant values, if any, 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. When the subsidiary was sold on March 31, 2017, the foreign exchange loss was reallocated from other comprehensive loss to other expense.

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.

(Expressed in Canadian dollars)

9. IMPAIRMENT LOSS

To ensure that the Company's long-term 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 December 31, 2015 and September 30, 2016, the Company determined that there were indicators of impairment for its property and 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. In addition, the loan to VeroLube (note 7), Investment in VeroLube (note 7) and accounts receivable from VeroLube, were impaired when the Company determined that due to VeroLube Inc.'s financial condition, the expected future cash flow from these financial instruments was nil. As a result, the Company recorded impairment losses as noted in the table below.

	Year ended December 31	
	2017	2016
	$	$
VeroLube loan (note 7)	15,481	164,375
Drilling equipment (note 4)	-	95,881
Mineral interest (note 5)	-	216,819
Total impairment loss	15,481	477,075

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value of Financial Instruments

The Company's financial instruments at December 31, 2017 include cash and cash equivalents, accounts receivable, Investment in COY, and accounts payables and accrued liabilities.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to their immediate or short-term nature, unless otherwise noted.

The fair value of COY shares was based on the closing prices of those shares on Australian Stock Exchange.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair Value Hierarchy

Financial instruments recorded at fair value on the Consolidated Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Fair values of financial instruments are determined by valuation methods depending on hierarchy levels as defined below:

Level 1 – Quoted market price in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included in level 1 that are observable for the assets or liabilities, either directly (i.e. observed prices) or indirectly (i.e. derived from prices)

Level 3 – Inputs for the assets or liabilities are not based on observable market data

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the highest level of the hierarchy for which a significant input has been considered in measuring fair value. The following table presents the financial instruments recorded at fair value or at fair value which approximates the carry amount in the Consolidated Statement of Financial Position, classified using the fair value hierarchy described above:

Asset	Level 1 $	Level 2 $	Level 3 $
December 31, 2017:			
Cash and cash equivalents	6,284,891	-	-
Investment in Coppermoly Ltd. (note 6)	57,415	-	-
December 31, 2016:			
Cash and cash equivalents	442,663	-	-
Investment in Coppermoly Ltd. (note 6)	30,621	-	-

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk – is the risk of a financial loss to the Company if a counterparty fails to meet its contractual obligations. The Company's cash is largely held in a Canadian financial institution and management believes that the credit risk with respect to financial instruments recorded on the Consolidated Statement of Financial Position at December 31, 2017 is minimal.

Currency risk – currency risk arises due to fluctuations in the exchange rates. The Company's equity financings are sourced in Canadian dollars and the normal day-to-day expenditures are incurred in Canadian dollars. As at December 31, 2017, the Company's holdings in foreign currencies are not material and exposure to currency risk is minimal.

Interest rate risk – is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's interest income is subject to bank deposit interest rates. During 2017, the Company received $26,453 of interest income from banks and accrued $15,481 of interest income. A 1% change in interest rate would affect income (loss) before tax of approximately $63,000.

(Expressed in Canadian dollars)

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk – is the risk that the Company will be unable to meet its obligations as they become due. The Company manages its liquidity risk by implementing a budget, forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at December 31, 2017, the Company had $6,284,891 in cash and cash equivalents, $1,061,490 in current liabilities and no long-term liabilities.

The Company's current liabilities arose as a result of corporate expenses and accruals. Payment due dates for corporate expenses varies from invoice date to 30 to 60 days from date of the invoices.

Price risk – the Company is exposed to price risk with respect to commodity and equity pricing, and the investment in COY. The Company is exposed to changes in market prices and a sensitivity analysis suggests that a 10% change in COY share prices would affect other comprehensive income or loss by approximately $5,700 before tax.

11. CAPITAL MANAGEMENT

The Company manages its capital structure, being its share capital, and makes adjustments to it, based on the funds available to the Company, in order to support future business opportunities. The Company had share capital of $74,796,282 and no long-term debt as at December 31, 2017. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Planning, annual budgeting, cash flow forecasting and implementing controls over major investment decisions are primary tools used to manage the Company's capital.

The Company's investment policy is to hold cash in interest bearing bank accounts and highly liquid short-term interest bearing investments with maturities of one year or less which can be liquidated at any time without penalties.

The Company currently has no source of revenues. As such, the Company is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

12. COMMITMENTS

The Company's gross office lease commitments as at December 31, 2017 are shown in the table below.

Year	Total office lease commitment $	Amount recovered from sublease $	Total office lease commitment, net of recovery $
2018	419,894	(98,463)	321,431
2019	344,046	(100,515)	243,531
2020	90,061	(50,258)	39,803
	854,001	(249,236)	604,765

(Expressed in Canadian dollars)

12. COMMITMENTS (continued)

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 a portion of their property in Bowden, Alberta. The Company paid a non-refundable payment of $150,000, which was expensed for the year ended December 31, 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 (see note 17 for completion of the lease agreement).

On September 12, 2017, the Company entered into a purchase and sale agreement (“PSA”) with Elbow River Marketing Ltd. (“Elbow River”) for the majority of the Company’s finished products from its first rerefinery being constructed in Bowden, Alberta. Under the terms of the PSA, Elbow River will purchase the majority of the Company’s Bowden plant production and provide rail and truck transportation from the Bowden plant to Elbow River's customers. The agreement is for an initial term of five years from commencement of commercial operations as defined in the agreement. Under the agreement, the Company has undertaken to reimburse reasonable set up costs incurred by Elbow River should the Company fail to deliver product by the projected commercial operations date that had been advised to Elbow River. Due to the nature and timing of these costs, it is not practicable to estimate such reimbursable costs at this time.

The Company entered into agreements with engineering consulting firms to provide engineering consulting services estimated to total approximately $3,100,000, of which $1,490,000 has been incurred and the remainder expected to be incurred in 2018 and 2019. The charges from these consulting agreements are based on work performed by the engineering consultants and are not fixed amount contracts. One of the agreements is subject to a bonus based on the amount by which the total estimated cost of plant construction is reduced. The Company entered into agreements with an investor relations firm to provide investor relations services for a total fixed cost of $187,000 to be incurred in 2018 and a further commitment to issue 500,000 stock options in 2018 to purchase common shares of the Company (see subsequent events note 17 (g)).

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.

13. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31,	
	2017	**2016**
	$	**$**
Operating activities		
Interest income received from banks	26,453	2,126
Financing Activities		
Broker commissions and fees settled by issuance of shares	312,291	-

(Expressed in Canadian dollars)

14. GEOGRAPHICAL AREA INFORMATION

	Canada $	Papua New Guinea $	Total $
December 31, 2017			
Property and equipment	8,328	-	8,328
Total assets	6,634,124	-	6,634,124
December 31, 2016			
Property and equipment	8,328	-	8,328
Total assets	586,535	1,150	587,685

	Year ended December 31, 2017 $	2016 $
Net loss – Canada	5,294,972	1,475,504
Net loss – Papua New Guinea	27,559	662,311
Net loss - Barbados	-	15,160
Total net loss	5,322,531	2,152,975

15. 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 year ended December 31, 2017 (2016 - $nil).

16. INCOME TAX

(a) The reconciliation of the Canadian statutory income tax rates to the effective tax rates are as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Canadian statutory tax rate	26.00%	26.00%
Loss for the year before tax	$(5,322,531)	$(2,152,975)
Income tax recovery at statutory rates	(1,384,118)	(559,774)
Foreign tax differential	-	(23,316)
Non-deductible (taxable) items	227,061	28,886
Deferred tax assets not recognized - change	1,603,280	607,367
Adjustment in respect of prior years	(170)	(53,163)
Effects of change in tax rates	(447,020)	-
Other	967	-
Income tax recovery (expense)	$ -	$ -

(Expressed in Canadian dollars)

16. INCOME TAX (continued)

(b) Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits is dependent upon numerous factors, including the future profitability of operations in the jurisdictions in which the tax benefits arose.

The Company did not recognize deferred tax assets for the following deductible temporary differences:

	December 31, 2017	December 31, 2016
Non-capital losses	$18,075,271	$14,682,514
Property and equipment	278,264	4,130,438
Exploration and evaluation assets	2,723,436	28,933,559
Share issuance costs	1,043,466	42,615
Available-for-sale investments	18,465	3,483,127
Capital losses	43,829,653	-
Intercompany loans and revaluation	-	38,438,062
Cumulative eligible capital	261,465	261,465
Charitable donation	3,800	3,800
Loan receivable	29,014	924,914
Reserves	238,650	341,776
	$66,501,484	$91,242,270

The prior year temporary differences for which deferred tax assets were not recognized had included tax attributes of subsidiaries that were sold in the year.

(c) The Company has approximately $2,723,436 of unclaimed resource expenses for Canadian income tax purposes which can be carried forward indefinitely and used to reduce taxable income in Canada.

The above noted capital losses have indefinite expiry period.

As at December 31, 2017, the Company has the following net operating losses, expiring in various years to 2037 and available to offset future taxable income in Canada.

2026	$44,000
2027	52,000
2028	318,000
2029	75,000
2030	95,000
2031	2,865,000
2032	2,268,000
2033	2,412,000
2034	2,040,000
2035	1,869,000
2036	1,516,000
2037	4,521,000
	$18,075,000

17. SUBSEQUENT EVENTS

(a) On January 5, 2018, the Company granted 600,000 stock options at an exercise price of $0.68, expiring on January 5, 2020. The options will vest in two equal tranches on May 31, 2018 and upon commissioning of the Bowden plant.

(b) The Company entered into a lease agreement dated January 11, 2018 with Parkland for a portion of their property in Bowden, Alberta. The lease commences on February 1, 2018 and is for an initial term of 20 years. Annual basic rent is $1,200,000 with an increase equal to the greater of 2% or the Alberta Consumer Price Index on each fifth anniversary of the lease term. In addition to the basic rent, the Company is also responsible for customary operating costs that are to be determined, but not less than $800,000 annually in any case. The Company intends to construct its new motor oil re-refinery on the existing process pads at Parkland's Bowden facility. The lease agreement requires the Company to decommission the existing Bowden plant facility before construction of the new oil re-refinery plant. The Company estimates that the cost of this decommission work to be approximately $3.5 million. In addition, the lease agreement requires the Company to provide a security deposit of $2 million before commencement of any work on the Bowden facility.

(c) The remaining 1,850,000 warrants issued with the Offering were all exercised by the expiry date of February 6, 2018. Each warrant was exercised at $0.30 per share for gross proceeds of $555,000.

(d) On February 20, 2018, the Company announced that it has signed a 60-day exclusive term sheet for a $72 million senior secured term loan credit facility (the "Facility") for the Company's wholly owned subsidiary, Gen III Oil (Alberta) Inc. (the "Gen III Alberta") from an arm's length third party commercial lender (the "Lender"). The net proceeds of the Facility are intended to be used to: fund the design and construction of a re-refinery of used motor oil in Alberta by Gen III Alberta (the "Project"), fund pre-commercial operations working capital, fund an interest and contingency reserve for the Facility and pay the fees and expenses in connection with the closing of the Facility. As contemplated, the Facility will be guaranteed by subsidiaries of the Company and the subsidiaries will grant as security for the Facility registered security interests over their respective assets in favour of the Lender. The Facility will be subject to certain prepayment restrictions and prepayment premiums to be further set out in the definitive agreements respecting the Facility. The Facility is also subject to certain affirmative covenants by Gen III Alberta including having the Project operating within a prescribed period following commencement of construction and compliance with customary financial covenants to be further set out in the definitive agreement respecting the Facility.

The term sheet is non-binding and contains a list of key terms and conditions precedent for the establishment of commercial arrangements between the parties. Closing of the Facility is subject to customary conditions precedent, including: completion of satisfactory due diligence by the parties, execution and delivery of the definitive loan documents, receipt of all requisite third-party consents and applicable regulatory approvals, grant of security interests for the Facility, funding of a contingency reserve and closing of an equity financing by the Company.

No securities of the Company are contemplated to be issued in connection with the Facility. Under the Term Sheet, the Company agrees to grant the Lender warrants to acquire up to 4% of the common equity of Gen III Alberta and reimburse the Lender all of its costs and expenses relating to the Facility and the transactions contemplated thereby.

(e) On March 13, 2018, the Company granted 1,200,000 stock options at an exercise price of $0.70, expiring on March 13, 2021. The options will vest on the earlier of: (a) a Change of Control of the Corporation; or (b) the "Commercial Operations Date" (as such term is defined in the Purchase and Sale Agreement between Gen III and Elbow River Marketing Ltd. dated September 12, 2017) of the Corporation's re-refinery plant being constructed in Bowden, Alberta.

17. SUBSEQUENT EVENTS (continued)

(f) On March 13, 2018 the Company announced the proposed shares-for-debt settlement transactions in which Gen III would issue up to 172,852 common shares in the capital of the Corporation at a deemed price of $0.70 per common share to the directors of the Corporation in connection with the settlement of an aggregate of $120,998 of debt owed to such Directors relating to director's fees. The transaction is subject to approval from the TSX Venture Exchange.

(g) On March 26, 2018, the Company granted 500,000 stock options to an investor relations firm at an exercise price of $0.61, expiring on March 26, 2020. The options will vest quarterly in equal installments beginning on June 26, 2018.

(h) Subsequent to year end, certain employees and officers resigned or were terminated. As such, 25,000 options expired and 380,000 options were forfeited.