

**GEN III OIL CORPORATION  
AMENDED AND RESTATED FILING STATEMENT**

Dated as of June 30, 2017

*Neither the TSX Venture Exchange Inc. nor any securities regulatory authority has in any way passed upon the merits of the Change of Business described in this Filing Statement*

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## GLOSSARY

**BCBCA** means the *Business Corporations Act* (British Columbia).

**BCUOMA** means the British Columbia Used Oil Management Association.

**Board** means the Board of Directors of the Issuer.

**Bowden Facility** means the proposed 2,800 bpd, re-refinery facility of the Issuer located at the Parkland-owned refinery site located in Bowden, Alberta.

**bpd** means barrels per day.

**CBCA** means the *Canada Business Corporations Act*.

**CEO** means the chief executive officer.

**CFO** means chief financial officer.

**Change of Business** means the change of business of the Issuer from a mining issuer to an industrial issuer involved in the re-refining of used motor oil, all as further described herein.

**Clarkes Agreement** means the employment agreement the Issuer entered into with Greg Clarkes on May 1, 2012 under which Greg Clarkes provides his services as the Company's Chairman and CEO.

**Common Shares** refers to common shares in the capital of the Issuer.

**CSU** means the Contaminant Separation Unit Phase of ReGen™.

**DOE** means the United States Department of Energy.

**Elbow River** means Elbow River Marketing Ltd.

**Exchange** means the TSX Venture Exchange Inc.

**FEED** means Front-End Engineering and Design.

**Filing Statement** means this filing statement prepared in accordance with Policy 5.2 – *Changes of Business and Reverse Takeovers* of the Exchange.

**Forbearance Agreement** means the forbearance agreement entered by the Issuer with Verolube on March 28, 2016.

**GHG** means greenhouse gas.

**Governance Guidelines** means all applicable policies and guidelines of the Exchange and of Canadian Securities Administrators including National Policy 58-201 – *Corporate Governance Guidelines*.

**ILF** means ILF Consulting Engineers, a consulting service in Canada.

**Issuer or Company or Gen III** means Gen III Oil Corporation, a corporation existing under the provisions of the BCBCA.

**Longshot** means Longshot Capital Inc.

**Maturity Date** means the date the VeroLube Loan is repayable, which is the date that falls 10 calendar days after the date of receipt by VeroLube of written demand of the Issuer which may be made at any time after March 30, 2015.

**MD&A** means management's discussion and analysis.

**MRA** means the Mineral Resources Authority of Papua New Guinea.

**MSU** means the Molecular Separation Unit Phase of ReGen™.

**MTU** means the Molecular Treatment Unit Phase of ReGen™.

**NEO** means Named Executive Officer as such term is defined by NI 51-102 F6 – *Statement of Executive Compensation* and for the purposes of this Filing Statement means, Gregory Clarkes, Rick Low, George Davidson and Neil Halldorson.

**NexGen** means the “green engine oil” product introduced by Valvoline in 2013, which contains 50% re-refined and 50% virgin Group II base lubricating oil.

**NMC** means NMC Mining Corp., a company with which the Issuer entered into a business combination on June 7, 2011.

**OEM** means original equipment manufacturers.

**Option** means a stock option granted pursuant to the Stock Option Plan.

**Order** means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days.

**Parkland** means Parkland Refining Ltd.

**Patents** means the patents related to ReGen™.

**PCMO** means Passenger Car Motor Oil.

**PetroTex** means PetroTex Hydrocarbons, LLC.

**PNG** means PNG Gold Corporation, the previous name of the Issuer prior to the acceptance of the change of name application submitted to the Exchange in connection with the Change of Business.

**PROP** means the Phillips Re-Refined Oil Process.

**ReGen™** means a proprietary re-refining technology for producing high yields of high quality hydrocarbon products from used oils.

**SEDAR** means the System for Electronic Document Analysis and Retrieval, the system for the official filing of documents by public companies across Canada.

**Silver Ridge** means Silver Ridge Resources Inc., a previous name of the Issuer.

**Stantec** means Stantec Consulting Ltd., a consulting services company.

**Stock Option Plan** means the Issuer's stock option plan as amended on July 22, 2016.

**UMO** means used motor oil.

**Valvoline** means Valvoline Inc, a chemical industry company.

**VeroLube** means VeroLube, Inc., a renewable energy technology company based in Vancouver, Canada, which owns ReGen<sup>TM</sup>.

**VeroLube Loan** means a loan for \$500,000 extended by the Issuer to VeroLube on November 28, 2015, which included a previous \$140,000 loaned by the Issuer.

**VeroLube Shares** means common shares in VeroLube.

**VOC** means a volatile organic compound.

**Warrant** means a Common Share purchase warrant of the Issuer entitling the holder to acquire one Common Share at a price of \$0.30 per Common Share until December 12, 2017 or February 8, 2018 depending on issue date. 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.

**WSP** means WSP Canada Inc., a consulting service.

**WTI** means West Texas Intermediate.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Filing Statement and the schedules attached hereto are forward-looking statements which may include, but are not limited to: the development and construction of the Bowden Facility; the market for finished products; the cost, terms and timing of a definitive lease with Parkland; the pricing, terms and timing of a definitive off-take agreement with Elbow River; the other agreements to be entered into with Parkland; receipt of process guarantees from Stantec; the size, capacity and efficiency of the proposed Bowden Facility; contracts for feedstock and the sufficiency of feedstock; reductions in CO<sub>2</sub> and SO<sub>2</sub> emissions; eligibility for carbon credits; ability to raise funds to fund stated business objectives; agreements relating to the Bowden Facility; total installed cost of the construction of the Bowden Facility; the timing of the construction of the Bowden Facility; and the receipt of regulatory approvals and required licensing. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Issuer to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to: delays in construction; inability to raise necessary capital to fund construction; inability to secure the knowledgeable staff to run the Bowden Facility; and other factors set out under “*Risk Factors*” herein. Forward-looking statements contained herein are made as of the date of this Filing Statement and, other than as required by law, the Issuer disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

## AMENDMENTS TO THE FILING STATEMENT

This is an amended and restated version of the Gen III Oil Corporation filing statement dated as of June 30, 2017 and filed on SEDAR on July 28, 2017 (the “**Original Filing Statement**”) and supersedes the Original Filing Statement in its entirety. This Filing Statement removes the unaudited interim financial statements of the Issuer for the three months ended March 31, 2016 in Schedule “A” to the Original Filing Statement and the management’s discussion and analysis of the Issuer for the three months ended March 31, 2016 in Schedule “B” to the Original Filing Statement. The removal of these financial statements and management’s discussion and analysis from Schedules “A” and “B”, respectively, are the only amendments to the Original Filing Statement.

## SUMMARY OF FILING STATEMENT

*The following is a summary of information relating to the Issuer and the new business of the Issuer (assuming completion of the Change of Business) and should be read together with the more detailed information and financial data and statements contained elsewhere in this Filing Statement.*

### **The Issuer**

The Issuer was incorporated under the *Company Act* (British Columbia) under the name “Silver Ridge Resources Inc.” on September 27, 1984. On March 10, 1993, the Issuer’s name was changed to “International Silver Ridge Resources Inc.” On June 7, 2011, as part of a business combination with NMC Mining Corp., the Issuer changed its name to “PNG Gold Corporation”. On May 11, 2017, as part of the Change of Business, the Issuer changed its name to “Gen III Oil Corporation”.

The corporate head office of the Company is located at Suite 910 – 1050 West Pender St., Vancouver, B.C., V6E 3S7, Canada. The registered and records office is located at 725 Granville Street, Pacific Centre, Suite 400, Vancouver, BC, V7Y 1G5, Canada. The Issuer is a reporting issuer in British Columbia and Alberta.

The Issuer previously operated as a mining company, with its main interests and operations in Papua New Guinea. On October 4, 2016, the MRA unexpectedly refused the Issuer's exploration license renewal applications. As a result, the Issuer lost all of its exploration rights and ownership of mineral interests and sold all of its drilling equipment. See “*General Development of the Business – History*” below.

### **Reason for the Change of Business**

#### *History*

As of this date, the only assets of the Issuer are the patents to the ReGen™ technology which were acquired from VeroLube pursuant to the enforcement of security and seizure of assets from an earlier Forbearance Agreement. See “*General Development of the Business – History*” below.

The Change of Business is to an Issuer involved in the re-refining of used motor oil using the ReGen™ technology.

ReGen™ has been under development since 2004. The patented ReGen™ re-refining technology process is actually the combination of traditional refining industry standard operations, combined in a unique pattern, at specific design temperature and pressure settings, to generate the lowest production cost, highest profit margin re-refined lubricating base oils, including the ability to produce Group III synthetic grade motor oil in a commercial scale re-refining operation. The ReGen™ technology is a new and significantly improved process that re-refines used motor oil into its highest and best use, far surpassing existing technologies in terms of both the quality and quantity of products produced. Currently, there are no active operations of the ReGen™ processes. See “*Narrative Description of the History of the New Business – General*” below.

The Issuer has signed a letter of intent with Parkland and intends to enter into a definitive lease with Parkland for the development of the Bowden Facility. The finished products will then be sold to fuel distributors or motor oil blenders, who will market and sell the finished goods. To facilitate the sale of the Issuer’s finished products the Issuer has entered into a letter of intent in respect of a proposed five (5) year Off-take Marketing Agreement with Elbow River whereby Elbow River will market 100% of the Issuer’s finished products to fuel distributors and motor oil blenders on behalf of the Issuer.

Concurrent with development of the Bowden Facility, the Company is exploring opportunities to develop ReGen™ facilities at other locations in Canada, the US, Mexico, Australia, and other markets. The Issuer is also investigating opportunities to license the ReGen™ technology in order to access non-core markets and to accelerate the market penetration of ReGen™.

The Issuer currently holds four (4) patents that have been granted in North America and has applied to have the name changed from the original inventor to the Issuer on two (2) other patents that have been granted in India and Singapore. The Issuer also holds twelve (12) other patents 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 Patents provide protection over the ReGen™ technology.

#### *Market Demand*

Construction of the proposed re-refinery will be dedicated to capitalizing on the growing demand for re-refined Group II base lubricating oil and more importantly, to enter the Group III base lubrication oil market. In fact, the relative stability of the base oil pricing in general, and the Group III base lubricating oil price in particular, is a strong indicator of the stability of the base oil market. See “*Narrative Description of the History of the New Business – Market*” and “*Narrative Description of the History of the New Business – Competitive Conditions*” below.

#### *The Bowden Facility*

The most recent cost estimate for the Bowden Facility is in the amount of \$89.4M. Included in that cost estimate were estimated turn-key package prices from the manufacturers of the proposed fluid/fluid extraction system, as well as from the proposed hydro finishing manufacturer. The price estimates assumed that all major components of the re-refinery will be fabricated off-site and then will be shipped to Bowden for assembly thereby further reducing the anticipated cost of building that facility. Based on a preliminary construction schedule, it is anticipated that construction on the Bowden Facility will commence during the last quarter of 2017 and could be completed by the last quarter of 2018.

#### **Name Change**

In connection with the Change of Business, the Issuer changed its name “Gen III Oil Corporation”.

#### **Availability of Funds and Principal Purposes**

Currently the Issuer has \$1,017,000 of working capital available. There is no financing being conducted in connection with the Change of Business. In order to achieve the stated business objectives purposes the Issuer would be required to obtain additional financing. The Issuer expects to use the total funds available set forth above for the principal purposes described below:

<b>Use of Funds</b>	<b>Estimated Amount</b>
Estimated expenses of Exchange application for Change of Business (includes legal fees, filing fees and other administrative and incidental expenses)	\$20,000
Satisfaction of estimated general administrative and other operational expenses of the Issuer for 18 months from the date hereof	\$897,000
General corporate expenses and working capital	\$100,000

The Issuer intends to spend the funds available for the Change of Business as stated in this Filing Statement. There may be circumstances however, where for sound business reasons, a reallocation of funds may be necessary. See “*Risk Factors*” below.

### **Financial Information**

Included as Schedule “A” to this Filing Statement are the audited financial statements of the Issuer for the fiscal years ended December 31, 2016, 2015 and 2014 and the unaudited interim financial statements for the three months ended March 31, 2017 and March 31, 2016. The Issuer’s financial statements are also available on SEDAR at [www.sedar.com](http://www.sedar.com).

The following tables set forth selected historical financial information for the Issuer and should be read in conjunction with the aforementioned financial statements.

#### *Annual Financial Information*

	<b>Year Ended December 31, 2016 (\$)</b>	<b>Year Ended December 31, 2015 (\$)</b>	<b>Year Ended December 31, 2014 (\$)</b>
Revenue	-	-	-
Total Expenses	2,152,975	3,373,444	2,456,489
Net earnings (loss)	(2,152,975)	(3,373,444)	(2,456,489)
Cash	442,663	832,747	2,774,907
Liabilities	1,632,857	1,078,554	1,009,640

#### *Interim Financial Information*

	<b>Three Months Ended March 31, 2017 (\$)</b>
Revenue	-
Total Expenses	775,804
Net earnings (loss)	(775,804)
Cash	2,498,403
Liabilities	1,108,655

## Stock Exchange Listing and Market Price of Issuer's Shares

The Issuer has its Common Shares currently listed on the Exchange under the symbol "GIII".

No Common Shares are being issued in connection with the Change of Business. The following table provides the price ranges and volume traded on the Exchange for the periods listed below:

<u>Period</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
June 2017	0.97	0.70	1,103,267
May 2017 <sup>(1)</sup>	0.98	0.53	2,425,233
April 2017	0.81	0.44	3,917,746
March 2017	0.465	0.285	2,318,287
February 2017	0.39	0.20	2,416,549
January 2017	0.28	0.10	3,844,085

(1) The Common Shares began trading on the Exchange under the symbol "GIII" on May 16, 2017. Prior thereto, the Common Shares traded on the Exchange under the symbol "PGK".

The closing price of the Issuer's Common Shares on June 30, 2017, the date of this Filing Statement, was \$0.80.

The authorized share capital of the Issuer currently consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares without nominal or par value. As of the date of this Filing Statement 48,448,954 Common Shares are currently issued and outstanding and no preferred shares are currently outstanding.

## Conditions to Completion of Change of Business

The only condition required to complete the Change of Business is the acceptance of the Exchange. There can be no assurance that the Change of Business will be completed.

## Interests of Experts

No person or company, whose profession or business gives authority to a statement made by the person or company and who is named as having prepared or certified a part of this Filing Statement or as having prepared or certified a report or valuation described or included in this Filing Statement, holds any beneficial interest, directly or indirectly, in the Issuer and no such person is expected to be elected, appointed or employed as a director, senior officer or employee of the Issuer and no such person is a promoter of the Issuer. See "*General Matters – Interests of Experts*"

## Summary of Risk Factors

**An investment in securities of the Issuer is highly speculative and involves a high degree of risk and should only be made by investors who can afford to lose their entire investment.**

The Company will be subject to certain general risks that should be carefully considered, including the following: Liquidity Risk; Financing Risks; No History of Operations; General Market Risk; Share Price Volatility and Price Fluctuations; Global Financial Conditions; Fluctuations of Oil Prices; Demand; Receipt of Waste Oil; Health, Safety and Environment; and Competition.

The stated business objectives of the Issuer are also subject to the following specific risks: Technical Feasibility; Modularization and Scalability; Construction; Engineering; Technology and IP; and Supply Chain Infrastructure.

For a detailed description of certain risk factors related to the ownership of Common Shares, which should be carefully considered before making an investment decision, see “*Risk Factors*” and “*Narrative Description of the Business – Stated Business Objectives – Perceived Risks with Stated Business Objectives*” below.

**Exchange Approval**

The Issuer has not received conditional approval for the Change of Business from the Exchange.

## **RISK FACTORS**

**AN INVESTMENT IN SECURITIES OF THE ISSUER IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK AND SHOULD ONLY BE MADE BY INVESTORS WHO CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT.**

Prior to making an investment decision, investors should consider the investment risks set forth below and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a business at an early stage of development. The Issuer considers the risks set forth below to be the most significant, but does not consider them to be all of the risks associated with an investment in securities of the Issuer. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the directors are currently unaware or which they consider not to be material in connection with the Issuer's business, actually occur, the Issuer's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Issuer's securities could decline and investors may lose all or part of their investment.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company strives to ensure that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

### **Financing Risks**

The Company has finite financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to achieve its stated business objectives. Achieving these business objectives will be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain additional financing could result in delay or indefinite postponement of the construction and development of the Bowden Facility.

### **No History of Operations**

The business of the Issuer will not effectively commence until the completion of the Bowden Facility. While many members of the Issuer's management have expertise and comparable operating experience, the Company itself has no history of operations in the re-refining business, and there can be no assurance that the Company's business will be successful, or profitable, or that it will be able to successfully execute its business model and growth strategy. If the Issuer cannot execute its business model and growth strategy, it may result in a material and adverse effect on the profitability, results of operation and financial condition of the Issuer.

There can be no assurance that the Company will ever be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as needed consultants, personnel and equipment associated with the Bowden Facility are required, and as the advancement and implementation of the ReGen™ technology and process proceeds. The amount and timing of expenditures will depend on the progress of the construction of the Bowden Facility, the receipt of required permitting and other regulatory approvals, and other factors many of which are beyond the Company's control.

The Company expects to incur losses until such time as the facility is operational for an extended period of time resulting in sufficient commercial production of the re-refined products to generate sufficient revenues to fund continuing operations and any debt incurred from the construction of the facility.

### **General Market Risk**

The Company's securities trade on public markets and the trading value thereof is determined by the evaluations, perceptions and sentiments of both individual investors and the investment community taken as a whole. Such evaluations, perceptions and sentiments are subject to change; both in short term time horizons and longer term time horizons. An adverse change in investor evaluations, perceptions and sentiments could have a material adverse outcome on the Company and its securities.

### **Share Price Volatility and Price Fluctuations**

In recent years, the securities markets in Canada have experienced a high level of volatility, and the share prices of securities of many companies, particularly junior companies like the Company, have experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that these price fluctuations and volatility will not continue to occur.

### **Global Financial Conditions**

Global financial conditions continue to be characterized by volatility. Many industries are impacted by volatile market conditions. Global financial conditions remain subject to sudden and rapid destabilizations in response to economic shocks. A slowdown in the financial markets or other economic conditions, including but not limited to consumer spending, employment rates, business conditions, inflation, fluctuations in fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates and tax rates, may adversely affect the Company's growth and financial condition. Future economic shocks may be precipitated by a number of causes, including the government debt levels, fluctuations in the price of oil and other commodities, the volatility of metal prices, geopolitical instability, terrorism, the volatility of currency exchanges, the devaluation and volatility of global stock markets and natural disasters. Any sudden or rapid destabilization of global economic conditions could impact the Company's ability to obtain equity or debt financing in the future on terms favourable to the Company or at all. In such an event, the Company's operations and financial condition could be adversely impacted.

### **Fluctuations of Oil Prices**

The Company's new business involves buying used motor oil from customers who collect the UMO, re-refining such used oil into base lubricating oils and other ancillary products, and then selling both such re-refined oil and other products from the re-refining process to other customers. Changes in the reported spot market prices of oil affect the prices at which we can sell those finished products.

### **Demand**

A decrease in demand for refined crude products could adversely impact the price that the Company and its future joint venture and strategic partners receive for the re-refined oil products produced by the Company's proposed re-refinery. A prolonged period of low demand could affect the value of the Company's assets and business prospects.

## **Receipt of UMO**

It is important that the UMO feedstock meets certain specifications to create an efficient refinery process. Feedstock that does not meet these specifications, if processed through the re-refinery, may have excess water content, may result in increased processing requirements, and/or may result in excess waste and/or cost to process the feedstock. Management of the Company plans to develop a quality control/quality assurance program in order to screen UMO feedstock to mitigate the risk that UMO feedstock does not meet all applicable standards however any failures in this risk mitigation strategy or any unforeseen circumstances could have an adverse effect on the Company.

## **Health, Safety and Environment**

The storage and transfer of crude oil products has a limited impact on the environment when conducted in compliance with applicable government policies and regulations. However, the potential exists for accidents to occur, or equipment to fail, which could result in the release of waste oil or finished products into the environment, and such release could result in damage to facilities, death or injury and liability to third parties.

In Canada, federal and provincial regulators responsible for the safe handling of hazardous materials continue to review, revise and implement new safety standards to enhance the safety of the public. New safety standards have the potential for a significant cost to implement and maintain; however, the cost and timing to comply with any such new, or proposed, changes is unknown at this time.

## **Competition**

Management of the Company is presently unaware of any direct competitors that are currently re-refining waste oil into marketable quantities of comparable products; however, large-scale base oil re-refinery facilities, of which two facilities currently operate in Canada, could be considered indirect competitors of the Company. However, the drop in crude oil prices beginning in 2014 and continuing into 2016 has brought a corresponding decrease in pricing for products such as propane and natural gas, which are attractive substitutes for used oil in certain applications due to their superior combustion properties and lower environmental regulatory requirements. Many companies have converted their facilities over to the convenience of using propane or natural gas because it burns cleaner and more efficiently, which effectively could increase the supply of used motor oil for the Issuer.

## PART I - INFORMATION CONCERNING THE ISSUER

### **CORPORATE STRUCTURE**

#### **Name and Incorporation**

The Issuer was incorporated under the *Company Act* (British Columbia) under the name Silver Ridge Resources Inc. (“**Silver Ridge**”) on September 27, 1984. On March 10, 1993, a special resolution of its shareholders was passed to change the Issuer’s name to “International Silver Ridge Resources Inc.” On June 7, 2011, as part of a business combination with NMC Mining Corp. (“**NMC**”), the Issuer changed its name to “PNG Gold Corporation”. Pursuant to the business combination, NMC amalgamated with 7595158 Canada Inc., a wholly-owned subsidiary of the Issuer, in consideration of the issuance by Issuer of 59,633,873 common shares. On May 11, 2017, as part of the Change of Business, the Issuer changed its name to “GEN III Oil Corporation”.

The following changes to the share capital and the articles have occurred since the Issuer’s inception:

- On December 31, 1984, the Silver Ridge shareholders approved a special resolution deleting from its articles, article 25 “Restrictions” and article 26 “Restrictions on Share Transfers”, in their entirety, effective on January 18, 1985;
- On April 20, 1993, a consolidation of three old for one new share was effected, pursuant to special resolutions approved by the Silver Ridge shareholders on March 10, 1993;
- On July 12, 1995, the authorized capital of Silver Ridge was increased to be 20,000,000 common shares without par value, pursuant to an ordinary resolution approved by the Silver Ridge shareholders on June 26, 1995;
- On June 28, 2000, pursuant to special resolutions approved by the Silver Ridge shareholders, the authorized capital of Silver Ridge was increased to be 100,000,000 common shares without par value;
- On July 31, 2006, Silver Ridge transitioned from a corporation organized under the British Columbia Company Act, to a corporation existing under the BCBCA, with an authorized capital of 100,000,000 common shares without par value;
- On December 14, 2007, a consolidation of three old for one new share was approved by special resolutions of the Silver Ridge shareholders, which consolidation became effective on October 6, 2008;
- On May 27, 2009, by special resolutions approved by the Silver Ridge shareholders, the “Pre-Existing Company Provisions” contained in the Notice of Articles of Silver Ridge were deleted, the authorized capital was increased to be an unlimited number of Silver Ridge shares without par value and an unlimited number of preferred shares without par value, and Silver Ridge adopted new articles in substitution for its existing articles; and
- On November 11, 2016, a consolidation of five old for one new share was effected, pursuant to a resolution of the directors approved on March 15, 2016.

#### **Registered and Records Address**

The corporate head office of the Company is located at Suite 910 – 1050 West Pender St., Vancouver, B.C., V6E 3S7, Canada. The registered and records office is located at 725 Granville Street, Pacific Centre, Suite 400, Vancouver, BC, V7Y 1G5, Canada. The Issuer is a reporting issuer in British Columbia and Alberta.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **History**

#### *Business Combination with NMC*

The material history of the Issuer commences in June of 2011 after the business combination of the Issuer with NMC. At the time of the business combination, NMC held: (i) a 50% interest in two mining exploration licenses located on Normanby Island in Papua New Guinea; and (ii) an option to earn the remaining 50% interest in each of the properties pursuant to an option agreement by making cash payments in the aggregate amount of \$1,000,000 (all of which had been paid as of April 29, 2011) and incurring exploration expenditures. Following the business combination with the Issuer, the Issuer's assets were the assets of NMC.

#### *Operations in Papua New Guinea*

The Issuer met its exploration expenditure commitments for the first property by November 1, 2011 and met the exploration expenditure commitment for the other property before June 30, 2013. From the business combination with NMC in 2011 and until late 2013, the principal business of the Issuer has been mining activities related to its interest in the exploration licences on Normanby Island, eastern Papua New Guinea.

During 2013 and into 2014 the Issuer, in the face of a challenging market for mining issuers, resolved to manage its cash balance by scaling down its drilling and administrative operations in order to remain in a financially flexible position. In early 2013, the Issuer announced that it had scaled down its operations to reduce operating costs and has reduced its workforce in Papua New Guinea and at its head office. Additionally the Issuer began to seek other beneficial opportunities. See "General Development of the Business – VeroLube Loan" below.

#### *Expiry of Exploration Licenses*

The exploration licences have a term of two years and the Issuer was able to renew each of the licenses for a further two year term, both expiring in 2016. In the fall of 2015, the Issuer applied for a further two year renewal on the exploration licences but was informed by the Mineral Resources Authority of Papua New Guinea ("MRA") on October 4, 2016 that both of its exploration license renewal applications were refused and would not be renewed. This action on the part of the MRA was unexpected as the Issuer has previously renewed the licenses without any issues and had met with various regulatory parties in Papua New Guinea who indicated no issues with the license renewal process.

As a result of the refusal to renew the exploration licenses, the Issuer lost all of its exploration rights and ownership of mineral interests. As at September 30, 2016, the Issuer evaluated its mineral interests for impairment and wrote off the full amount as the Issuer no longer has exploration rights and ownership of the mineral interests, the recoverable amount was determined to be \$nil. In November 2016 the Issuer announced the sale of all of the Issuer's drilling equipment.

#### *VeroLube Loan*

On July 7, 2014, the Issuer entered into an agreement with VeroLube and its subsidiary, VeroLube Bowden Plant Inc. to loan \$140,000 to VeroLube Bowden Plant Inc. The Issuer advanced the \$140,000 on July 9, 2014 to assist with plant and property lease payments. The loan bore interest at 5% per annum, was unsecured and matured on September 1, 2014.

On November 28, 2014, The Company and VeroLube entered into a new loan agreement for \$500,000 ("**VeroLube Loan**") that included the previous \$140,000 loaned. Under the terms of the agreement, the VeroLube Loan was repayable on that day which fell 10 calendar days after the date of receipt by VeroLube of written demand made by the Issuer which could be made at any time after March 30, 2015 ("**Maturity Date**").

The VeroLube Loan was secured by a charge against all present and after-acquired assets of VeroLube, including the patents related to the ReGen<sup>TM</sup> technology (the "**Patents**"). In addition, VeroLube provided the following additional consideration for the VeroLube Loan:

1. issued to the Company 250,000 common shares of VeroLube;
2. granted to the Company a royalty-free, non-exclusive, perpetual license to use VeroLube's patented ReGen<sup>TM</sup> process in Canada, Mexico and Central and South America; and
3. granted to the Company security interest against all of VeroLube's present and after-acquired personal property.

On February 4, 2015, the Issuer and VeroLube entered into a binding term sheet providing for the acquisition by the Issuer of VeroLube. It was proposed that the Issuer would consolidate its issued and outstanding shares on a 1:10 basis, and then acquire all of the issued and outstanding common shares of VeroLube in exchange for Common Shares a 1:1 basis by way of a plan of arrangement or other similar transaction. It was intended that the Issuer following this proposed transaction would change its name to VeroLube Inc. and carry on VeroLube's business. In connection with this term sheet, the Issuer agreed to forbear the demand of the VeroLube Loan.

During the year ended December 31, 2015, an additional \$112,613 was loaned to VeroLube and VeroLube issued an additional 55,875 VeroLube Shares to the Issuer as additional consideration for the additional loaned funds.

On July 20, 2015, the Issuer announced that the proposed transaction with VeroLube would not be completed but that the Issuer had agreed not to call the VeroLube Loan and outstanding interest until September 30, 2015. In return, VeroLube agreed to give the Issuer the non-exclusive rights to its patented and certified ReGen<sup>TM</sup> used oil re-refining process for the US market in addition to Canada, Mexico, Central America and South America, which it already held.

On March 28, 2016, the Issuer entered into a forbearance agreement (the "**Forbearance Agreement**") with VeroLube. Under the Forbearance Agreement, the Issuer agreed to forbear from exercising its rights and remedies under the loan documents, conditionally upon VeroLube assigning the Patents to the Company and issuing 305,875 VeroLube Shares to the Issuer on or before May 31, 2016. VeroLube did not fulfill these conditions.

On January 3, 2017, the Issuer 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 Issuer of three originally executed copies of the patent licence agreement, and delivery to the Issuer of such documents as it may require to effect assignment of the patents; both as was provided for in the Forbearance Agreement. All other terms and conditions of the Forbearance Agreement remained in full force and effect. On January 16, 2017, VeroLube assigned the patents for the ReGen<sup>TM</sup> technology to the Issuer.

On February 3, 2017, the Issuer issued a demand to VeroLube for repayment of all outstanding loan amounts and accrued and unpaid interest. The Issuer also provided notice to VeroLube that it was

proceeding to enforce its security over the Verolube patents and personal property. As of this date, the only assets of the Issuer are the Patents which were acquired pursuant to the enforcement of security and seizure of the assets and cash and cash equivalents.

## Financing

No financing has been or will be conducted in connection with the Issuer's Change of Business

## **SELECTED CONSOLIDATED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS**

All of the Issuer's financial projections summarized in this Filing Statement, including the Issuer's management's discussion and analysis ("MD&A"), were prepared by, and are the responsibility of, the Issuer's management, as indicated. Ernst & Young LLP, the Issuer's independent auditors, has not provided any assistance in preparing the Issuer's financial projections and has not examined, compiled, or otherwise performed any procedures with respect to the Issuer's financial projections and, accordingly, Ernst & Young LLP has not expressed any opinion or given any other form of assurance with respect thereto and they assume no responsibility for the prospective financial information. The Ernst & Young LLP reports included into this filing statement relate solely to the historical financial information of the Issuer. Such reports do not extend to the Issuer's financial projections and should not be read to do so.

### Selected Financial Information

The following table sets forth selected historical financial information for the Issuer for the years ended December 31, 2016, 2015 and 2014 and the unaudited interim financial statements for the three months ended March 31, 2017. Such information is derived from the Issuer's financial statements and should be read in conjunction with such financial statements included elsewhere in this Filing Statement including those financial statements attached hereto as Schedule "A".

#### *Annual Financial Information*

	Year Ended December 31, 2016 (\$)	Year Ended December 31, 2015 (\$)	Year Ended December 31, 2014 (\$)
Revenue	-	-	-
Total Expenses	2,152,975	3,373,444	2,456,489
Net earnings (loss)	(2,152,975)	(3,373,444)	(2,456,489)
Cash	442,663	832,747	2,774,907
Liabilities	1,632,857	1,078,554	1,009,640

#### *Interim Financial Information*

	Three Months Ended March 31, 2017 (\$)
Revenue	-
Total Expenses	775,804
Net earnings (loss)	(775,804)

	<b>Three Months Ended March 31, 2017 (\$)</b>
Cash	2,498,403
Liabilities	1,108,655

## **Management's Discussion and Analysis**

The Issuer's MD&A for the fiscal years ended December 31, 2016, 2015 and 2014 and for the three month period ended March 31, 2017 and March 31, 2016 are attached hereto as Schedule "B".

The MD&A of the Issuer should be read in conjunction with the Issuer's audited comparative financial statements and the related notes for the fiscal years ended December 31, 2016, 2015 and 2014 and unaudited interim comparative financial statements and the related notes for the three months ended March 31, 2017 and March 31, 2016.

Certain information included in the Issuer's MD&A is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "*Forward-Looking Statements*" herein for further details.

## **DESCRIPTION OF THE SECURITIES**

### **Securities**

The authorized share capital of the Issuer currently consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares, without nominal or par value. As of the date of this Filing Statement there are 48,448,954 Common and no preferred shares issued and outstanding.

The holders of the Shares are entitled to dividends, if, as and when declared by the board of directors of the Issuer, to receive notice of and one vote per Share at meetings of the shareholders of the Issuer and, upon liquidation, to share equally in such assets of the Issuer as are distributable to the holders of Shares. See "*Information Concerning the Issuer Following the Change of Business – Fully Diluted Share Capital*" and "*Information Concerning the Issuer Following the Change of Business – Available Funds and Principal Purposes – Dividends.*"

### **OPTION PLAN**

The Issuer has adopted the Stock Option Plan for the benefit of its employees, directors, officers and consultants. The Stock Option Plan was amended on July 22, 2016 and is required to be re-approved annually by shareholders of the Issuer. The Stock Option Plan was established to provide additional incentives to attract, retain and motivate directors, officers, employees and consultants.

The Stock Option Plan is a "rolling" plan and provides that the number of Common Shares issuable under the Stock Option Plan, together with all of the Issuer's other previously established or proposed share compensation arrangements, may not exceed 10% of the total number of issued and outstanding Common Shares. In addition, the following restrictions apply to the Stock Option Plan: (i) the number of Common Shares reserved for issuance to any one individual under the Stock Option Plan will not exceed 5% of the issued and outstanding Common Shares; (ii) the aggregate number of Common Shares reserved for issuance to all individuals conducting investor relations activities in any 12-month period will

not exceed 2% of the issued and outstanding Common Shares; and (iii) the number of Common Shares reserved for issuance to any one consultant in any twelve (12) month period under the Stock Option Plan will not exceed 2% of the issued and outstanding Common Shares.

Options granted under the Stock Option Plan are non-transferable and generally vest immediately. Options are exercisable for a period of up to two (2) years from the date of the grant.

Employees, officers, directors, consultants, employees of any person providing management services to the Issuer, or any company wholly owned by any of the aforementioned are entitled to participate in the Stock Option Plan while they are engaged with the Issuer. If a participant under the Stock Option Plan dies while engaged with the Issuer, the right of that participant (or of that participant's legal representative) to participate in the Stock Option Plan terminates as of the date of death, but any vested option may be exercised until the earlier of one year after the date of death of such participant and the date of expiration of the Option. If a participant under the Stock Option Plan ceases to be employed by or provide services to the Issuer, except in the case of termination for cause, any vested option may be exercised until the earlier of ninety (90) days after the participant ceases to be an eligible person under the Stock Option Plan and the date of expiration of the term otherwise applicable, or for such longer period as agreed by the Board and approved by the Exchange at any time prior to expiry of the Option. If a participant under the Stock Option Plan ceases to be employed by or provide services to the Issuer as a result of termination for cause, all options, whether or not vested, will terminate immediately without any right of exercise unless the Board extends the date of such termination to a later date, which must not exceed the earlier of the expiry date of the option and the date that is twelve (12) months after the participant ceases to be an eligible person under the Stock Option Plan.

Options granted under the Stock Option Plan may only be exercised during the lifetime of a participant by such participant personally and no assignment or transfer of options, whether voluntary, involuntary, by operation of law or otherwise, vests any interest or right in such options whatsoever in any assignee or transferee and immediately upon any assignment or transfer, or any attempt to make the same, such options will terminate and be of no further force or effect. However, the Board retains discretion to waive this requirement, subject to the approval of the Exchange, and permit the participant or its legal representative to exercise all or any unvested part of an option if the option would have otherwise vested but for the participant ceasing to be an eligible person.

The Stock Option Plan is administered by the Board, which has authority and discretion, subject to the express provisions of the plan, to interpret the Stock Option Plan, to amend the Stock Option Plan and to make all other determinations deemed necessary or advisable for the administration of the Stock Option Plan. The Board has the right, in its sole discretion, to amend, suspend or terminate the Stock Option Plan or any portion thereof at any time, in accordance with applicable legislation, without obtaining the approval of shareholders; provided that any amendment to any provision of the Stock Option Plan will be subject to any required regulatory approval, stock exchange rules and the provisions of applicable law, if any, that require the approval of shareholders. Notwithstanding the foregoing, the Issuer will be required to obtain the approval of disinterested shareholders for any amendment related to: (i) the issuance to any one individual within a 12 month period a number of Common Shares exceeding 5% of the issued and outstanding Common Shares; and (ii) reducing the exercise price for outstanding options granted to an insider of the Issuer.

An aggregate of 4,175,000 Common Shares are reserved for issuance under the Stock Option Plan. There are 5,500,000 Warrants outstanding at an exercise price of \$0.30, 2,275,000 of which expire on December 12, 2017 and 3,225,000 of which expire on February 6, 2018.

**PRIOR SALES**

In the 12 months prior to the date of this Filing Statement, the following securities have been issued by the Issuer:

<b>Date</b>	<b>Number</b>	<b>Type of Security</b>	<b>Issue Price per Share (\$)</b>	<b>Aggregate Issue Price (\$)</b>
December 2016 <sup>(1)</sup>	5,550,000	Common Shares	0.10	555,000
December 2016 <sup>(1)</sup>	2,775,000	Warrants	-	-
February 2017 <sup>(1)</sup>	6,450,000	Common Shares	0.10	645,000
February 2017 <sup>(1)</sup>	3,225,000	Warrants	-	-
March 2017 <sup>(2)</sup>	7,682,500	Common Shares	0.30	2,304,750
April 2017 <sup>(3)</sup>	2,032,797	Common Shares	0.17	345,575
<b>Total Shares</b>	<b>21,715,297</b>			<b>3,850,325</b>

**Notes:**

- (1) Issued pursuant to a non-brokered private placement of units where each unit consisted of one Common Share and one-half of one Warrant.
- (2) Issued pursuant to a non-brokered private placement of Common Shares that closed on March 13, 2017.
- (3) Issued pursuant to a shares for debt transaction initially announced by the Issuer on January 30, 2017 and approved by the Exchange in April 2017. The Common Shares were issued at a deemed price of \$0.17.

**STOCK EXCHANGE PRICE**

No Common Shares are being issued in connection with the Change of Business. The Common Shares are currently listed on the Exchange under the symbol "GIII". The following table provides the price ranges and volume traded on the Exchange for the periods listed below:

<b>Period</b>	<b>High (\$)</b>	<b>Low (\$)</b>	<b>Volume</b>
June 2017	0.97	0.70	1,103,267
May 2017 <sup>(1)</sup>	0.98	0.53	2,425,233
April 2017	0.81	0.44	3,917,746
March 2017	0.465	0.285	2,318,287
February 2017	0.39	0.20	2,416,549
January 2017	0.28	0.10	3,844,085
Q4, 2016	0.305	0.005	31,295,942
Q3, 2016	0.015	0.01	4,274,463
Q2, 2016	0.015	0.005	3,001,587
Q1, 2016	0.01	0.01	0
Q4, 2015	0.01	0.01	0
Q3, 2015	0.01	0.01	0
Q2, 2015	0.01	0.01	0

- (1) The Common Shares began trading on the Exchange under the symbol "GIII" on May 16, 2017. Prior thereto, the Common Shares traded on the Exchange under the symbol "PGK".

The closing price of the Issuer's Common Shares on June 30, 2017, the date of this Filing Statement, was \$0.80.

## **EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

The Company's approach to executive compensation has historically been to provide suitable compensation for executives that is internally equitable, externally competitive and reflects individual achievement. The Company has attempted to maintain compensation arrangements that will attract and retain highly qualified individuals who are able and capable of carrying out the objectives of the Company. The Board established and reviewed the Company's overall compensation philosophy and its general compensation policies with respect to the CEO and other officers, including the corporate goals and objectives and the annual performance objectives relevant to such officers. The Board evaluated each officer's performance in light of these goals and objectives and, based on its evaluation, determined and approved the salary, bonus, options and other benefits for such officers. In determining compensation matters, the Board considered a number of factors, including the Company's performance, the value of similar incentive awards to officers performing similar functions at comparable companies, the awards given in past years and other factors it considers relevant. The overall objectives of the Company's compensation strategy are to reward management for their efforts, while seeking to conserve cash. Until recently, compensation of the NEOs has emphasized conservation of cash.

Existing options held by the NEOs at the time of subsequent Option grants are taken into consideration in determining the quantum or terms of any such subsequent Option grants. Options have been granted to directors, management, employees and certain service providers as long-term incentives to align the individual's interests with those of the Company. The size of the option awards is in proportion to the deemed ability of the individual to make an impact on the Company's success. The board of directors has considered the implications of the risks associated with the Company's compensation policies and practices.

The Board considered the balance between long-term objectives and short-term financial goals incorporated into the Company's executive compensation program and whether or not NEOs are potentially encouraged to expose the Company to inappropriate or excessive risks. Risks, if any, may be identified and mitigated through regular meetings of the Compensation Committee and the Board. No risks have been identified arising from the Company's compensation policies and practices that are reasonably likely to have a material adverse effect on the Company.

The Company currently does not have a policy that restricts NEOs and directors from purchasing financial instruments, including prepaid variable forward contracts, equity swaps, collars or units of exchange funds that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the NEOs or director.

The Company has established a Compensation Committee which has been given the mandate to develop the Company's executive compensation philosophy and program and oversee the implementation thereof. The Compensation Committee consists of three directors, namely, Gregory Clarke, Paul DiPasquale and Larry Van Hatten. The Board believes that the members of the Compensation Committee collectively have the knowledge, experience and background required to fulfill their mandate. Mr. DiPasquale and Mr. Van Hatten are considered to be independent; however, Mr. Clarke is not independent as he is the CEO of the Company.

During the Company's most recently completed financial year, the Company has not retained a compensation consultant or advisor to assist the Compensation Committee or the Board in determining compensation for any of the Company's executive officers.

### **Summary of Executive Compensation**

The following table summarizes the compensation paid during the financial years ended December 31, 2016, 2015 and 2014 to those individuals who were: (i) acting as CEO of the Issuer, or in a similar capacity, for any part of the financial year ended December 31, 2016; (ii) acting as CFO of the Issuer, or in a similar capacity, for any part of such financial year; and (iii) each of the three most highly compensated executive officers of the Company, including any of its subsidiaries, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of such financial year (collectively the “NEOs”). Based on the foregoing, during the financial year ended December 31, 2016, the following individuals were NEO of the Company: Gregory Clarkes, Rick Low, George Davidson and Neil Halldorson. Mr. Halldorson's involvement with the Issuer terminated in March of 2016.

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation		All other compensation (\$)	Total compensation (\$)
					Annual incentive plans (\$)	Long-term incentive plans (\$)		
Gregory Clarkes Chairman & CEO	2016	280,000	-	-	-	-	55,000 <sup>(1)</sup>	335,000
	2015	-	-	-	-	-	275,000 <sup>(1)</sup>	275,000
	2014	-	-	-	-	-	275,000 <sup>(1)</sup>	275,000
Rick Low CFO	2016	31,500	-	-	-	-	15,990	47,490
	2015	64,875 <sup>(2)</sup>	-	-	-	-	-	64,875
	2014	105,313	-	-	-	-	112,000 <sup>(3)</sup>	217,313
George Davidson <sup>(4)</sup> President	2016	58,000 <sup>(4)</sup>	-	-	-	-	18,000 <sup>(4)</sup>	76,000
	2015	-	-	-	-	-	-	-
	2014	-	-	-	-	-	-	-
Neil Halldorson <sup>(5)</sup>	2016	57,000	-	-	-	-	75,415	132,415
	2015	228,000	-	-	-	-	-	228,000
	2014	228,000	-	-	-	-	-	228,000

**Notes:**

- (1) Fees paid pursuant to the Clarkes Agreement. Inclusive of \$35,000 in Directors' fees paid annually to Mr. Clarkes in each of 2016, 2015 and 2014. Mr. Clarkes received \$2,500 per month (\$30,000 per year) for service as a director and an additional \$416.67 (\$500 per year) for serving as Chair of the Compensation Committee. Effective February 16, 2016, director fees are being accrued.
- (2) Salary paid pursuant to a consulting agreement between Mr. Low and the Company.
- (3) Salary paid pursuant to the termination of Mr. Low's employment agreement with the Company.
- (4) George Davidson provided consulting services to the Company from February 1, 2016 to August 31, 2016. On November 24, 2016 he was appointed President of the Company and provides those services under a consulting agreement.
- (5) Neil Halldorson was terminated on March 31, 2016. Other Compensation for Mr. Halldorson includes severance payment of \$57,000 and payment of accrued vacation pay of \$18,415.

**Incentive Plan Awards**

The following table provides information regarding the incentive plan awards issued pursuant to the Stock Option Plan, as herein defined, for each NEO outstanding as of December 31, 2016. The Issuer does not have any share-based awards.

Name	Option-based Awards			Value of unexercised in-the-money options (\$)
	Number of Common Shares underlying Options	Option exercise price (\$)	Option expiration date	
Greg Clarkes	150,000	1.75	27-Aug-17	-
George Davidson	-	-	-	-
Rick Low	-	-	-	-
Neil Halldorson	-	-	-	-

**Note:**

- (1) Calculated as the closing price of the Common Shares underlying the options as of December 31, 2016 (\$0.10), less the exercise price, multiplied by the number of Options.

The following table provides information regarding the value on pay-out or vesting of Options issued to the NEO pursuant to the Stock Option Plan, as herein defined, for the financial year ended December 31, 2016. The Issuer does not have any other incentive plans or awards.

Name	Option-based awards – Value vested during the year
Greg Clarkes	-
George Davidson	-
Rick Low	-
Neil Halldorson	-

**Note:**

- (1) Options generally vest immediately upon grant. No Options were granted during the year ended December 31, 2016.

**Termination and Change of Control Benefits**

Except as disclosed herein, the Company does not have any employment contracts between any NEO, Director or Officer, nor does it have any arrangements with any NEO, Director or Officer for compensation in the event of resignation, retirement or other termination with the Company, except the Clarkes Agreement.

Under the Clarkes Agreement, Mr. Clarkes, commencing March 1, 2017, is paid \$5,000 per month. If Mr. Clarkes is terminated without cause or within twelve months following a Change of Control (whether Mr. Clarkes is terminated for any cause or Mr. Clarkes terminates the agreement for Good Cause) he is entitled to a lump sum payment equal to 24 months' salary and benefits as well as all accrued and unpaid vacation pay, salary and reimbursement of all expenses. Additionally, Mr. Clarkes may be terminated upon any breach of the terms of the Clarkes Agreement, with just cause, due to death or disability, or Mr. Clarkes can terminate the agreement with 3 months' advance written notice plus one additional months' notice for each completed year of service, to a maximum of 6 months' notice (or with compensation in lieu of notice).

In the Clarkes Agreement, a Change of Control is defined as:

- a) the acquisition, directly or indirectly, by any person or group of persons acting in concert, within the meaning of the *Securities Act* (British Columbia), of common shares of the Company which, when added to all other common shares of the Company at the time held directly or indirectly by such person or persons totals for the first time more than 50% of the outstanding common shares of the Company; or
- b) the acquisition, directly or indirectly, by any person, or group of persons acting in concert within the meaning of the *Securities Act* (British Columbia), of common shares of the Company which, when added to all other common shares of the Company at the time held directly or indirectly by such person or persons totals for the first time 30% of the outstanding common shares of the Company followed, within 12 months of such event, by the removal, by extraordinary resolution of the shareholders of the Company, of more than 51% of the then incumbent directors of the Company, or the election of a majority of new directors to the Company's incumbent board;
- c) consummation of a sale of all or substantially all of the assets of the Company, or a reorganization, merger, or other transaction, which has substantially the same effect; or
- d) any plan of arrangement, reorganization, merger or other transaction which has substantially the same effect as (a) to (c) immediately above.

In the Clarkes Agreement, Good Cause is defined as when one of the following events occurs without his written consent:

- a) a reduction in the Employee's position, duties, responsibilities or status with the Company compared to those that existed immediately prior to such change or reduction;
- b) a material reduction by the Company in the Employee's Salary or a change by the Company of the Benefits Plan; or
- c) a change in the principal place of work of the Employee to a location more than 75 kilometers from the then current place of work.

### Compensation of Directors

Except as disclosed herein, there are no arrangements under which directors were compensated by the Company and its subsidiaries during the most recently completed financial year for their services in their capacity as directors or consultants.

#### *Director Compensation Table*

The following table provides information regarding compensation paid to the Company's directors, who are not NEOs, during the financial year ended December 31, 2016.

Name	Fees earned (\$)	Option-based Awards (\$)	Non-Equity based compensation (\$)	All other Compensation (\$)	Total Compensation (\$)
Paul DiPasquale	3,700	-	-	-	3,750
John Detmold	-	-	-	-	-
Bryan Nethery	3,750	-	-	-	3,750
Larry Van Hatten	5,000	-	-	60,000 <sup>(1)</sup>	65,000

**Note:**

- (1) Represents consulting fees paid to a company that is controlled by Mr. Van Hatten.

#### *Director Incentive Plan Awards*

The following table provides information regarding the incentive plan awards issued pursuant to the Stock Option Plan, as herein defined, for each director outstanding as of December 31, 2016. The Issuer does not have any share-based awards.

Name	Option-based Awards			
	Number of Common Shares underlying Options	Option exercise price (\$)	Option expiration date	Value of unexercised in-the- money options (\$) <sup>(1)</sup>
Paul DiPasquale	60,000	1.75	27-Aug-17	-
John Detmold	110,000	1.75	27-Aug-17	-
Bryan Nethery	120,000	1.75	27-Aug-17	-
Larry Van Hatten	60,000	1.75	27-Aug-17	-

**Note:**

- (1) Calculated on the basis of the closing price of the Common Shares underlying the options at \$0.10 as of December 31, 2016.

The following table provides information regarding the value on pay-out or vesting of Options issued to the NEO pursuant to the Stock Option Plan, as herein defined, for the financial year ended December 31, 2016. The Issuer does not have any other incentive plans or awards.

Name	Option-based awards – Value vested during the year
Paul DiPasquale	-
John Detmold	-
Bryan Nethery	-
Larry Van Hatten	-

**Notes:**

(1) Options generally vest immediately upon grant. No Options were granted during the year ended December 31, 2016.

**Management Contracts**

Other than as described herein, management functions of the Company are substantially performed by directors or senior officers of the Company and not, to any substantial degree, by any other person with whom the Company has contracted.

**NON-ARM'S LENGTH PARTY TRANSACTIONS/ARM'S LENGTH TRANSACTIONS**

Transactions with related parties are measured at an exchange amount established and agreed to by the related parties.

On December 13, 2016, George Davidson's spouse and Larry Van Hatten purchased 50,000 and 500,000 units, respectively of the Company's first tranche of a non-brokered private placement of units where each unit consisted 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.

The Company's CEO and director Greg Clarkes was director of VeroLube Inc. at the time of the VeroLube Loan. See "*General Development of the Business – History – VeroLube Loan*".

Included in accounts payable and accrued liabilities as at December 31, 2016 is \$268,128 (2015 - \$120,000) of accrued directors' fees and \$4,000 (2015 - \$nil) of accrued expense allowance payable to the CEO, Greg Clarkes. See "*Information Concerning the Issuer – Executive Compensation*"

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. For more information on related party transactions see the disclosure in the Company's annual financial statements for the year ended December 31, 2016 attached hereto as Schedule A.

**LEGAL PROCEEDINGS**

There are no material pending legal proceedings to which the Issuer is a party or of which any of its property is the subject matter nor are any such proceedings known to the Issuer to be contemplated.

**AUDITOR, TRANSFER AGENTS AND REGISTRARS**

The auditors of the Issuer are Ernst & Young LLP whose principal office is located at Vancouver, Canada. The transfer agent and registrar for the Issuer is Computershare Trust Company of Canada at its office located at Vancouver, Canada.

## **MATERIAL CONTRACTS**

The Issuer has executed the following material contracts:

1. Patent Assignment Agreement between VeroLube and the Company dated January 2017.

## **PART II - INFORMATION CONCERNING THE NEW BUSINESS OF THE COMPANY**

### ***NARRATIVE DESCRIPTION OF THE HISTORY OF THE NEW BUSINESS***

#### **General**

ReGen™ has been under development since 2004. At that time, the process inventor Martin Macdonald, began reviewing all the available technologies and designed a new re-refining process for used motor oil. Mr. MacDonald subsequently co-founded PetroTex Hydrocarbons, LLC (“**PetroTex**”) to implement the technology in 2005.

That technology was trial tested as part of a 5 barrel per day pilot facility located in Cedar Hill, TX from 2007 to 2009, during which time the pilot plant reportedly ran for over 6,000 hours using various types and qualities of used motor oil feedstock. That activity established the design and operational basis for the technology, including the ability to utilize varying types and quality of feedstock supply and still produce end-products that met the quality specifications of API Group III base oil; as well as a Group II product; ultra-low sulfur diesel fuel; as well as additional by-products.

As part of the ongoing development cycle, ReGen™ has received numerous engineering reviews, including an independently commissioned review by the US Department of Energy Oak Ridge National Laboratory in 2007 and more recently by Wood Group Mustang and Tetra Tech Engineering in 2013. Subsequent reviews by Stantec and WSP completed in March 2017 included a detailed analysis of the effectiveness and scalability of the ReGen™ technology as well as a comparative analysis with other technologies.

Specifically, the Oak Ridge National Laboratory report concluded the following in support of the move to commercialize the ReGen™ technology:

1. The 5 barrels per day pilot plant was large enough to prove the technology subject to scaling of the process.
2. Scale-up to a larger sized demonstration facility is feasible without undue technical risk.
3. Product quality and environmental issues are within target ranges.

PetroTex went forward with the process of designing a UMO re-refinery for a site in Midlothian, TX. That activity included further development of the technology including a draft design package for a 1,500 barrel per day non-modular facility using Bechtel Engineering as design engineers and construction managers for the project. However, as a result of the 2009 economic downturn, the project was put on hold and was never resurrected.

In 2012, the technology was purchased from PetroTex by VeroLube, with a plan to commercialize the technology in conjunction with VeroLube’s planned acquisition of used motor oil collectors. VeroLube reassembled the 5 bpd pilot plant and commissioned Wood Group Mustang to provide FEED work for a modular commercial scale project at a proposed site in Bowden, Alberta. Tests at the resurrected pilot plant mirrored the test results completed three years earlier by PetroTex. However, VeroLube’s plan to also acquire used motor oil collection companies failed as the price of crude oil declined thereby eroding

the earnings of those collection companies. It was at that time that the Issuer provided loans to Verolube, which Verolube subsequently defaulted on.

In summary, the following development steps have previously been completed:

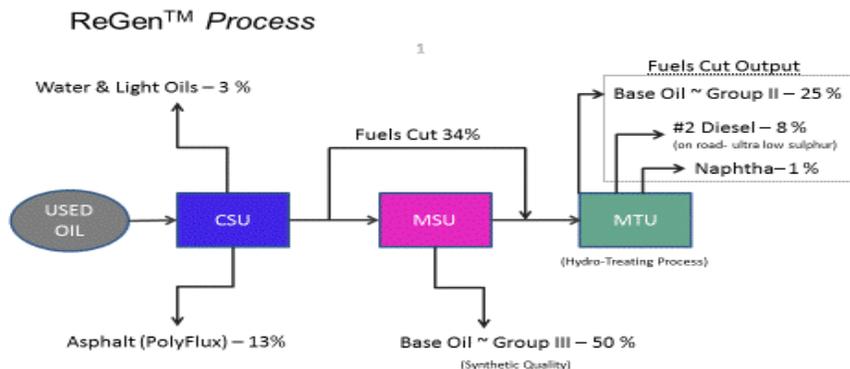
1. A proof of concept pilot plant operating at 5 bpd containing the first two stages of the ReGen process was constructed and operated to evaluate a wide range of process feedstock and operating conditions, which produced Group III synthetic grade base lubricating oil. (Note the hydrotreating third stage in the ReGen™ process was contracted out to an independent third party as the pilot plant's focus was to produce Group III base lubricating oil using the first two stages of the ReGen™ process).
2. A third party technology validation of the ReGen™ process was completed by a US DOE laboratory, which was subsequently reviewed by both Mustang Engineering and Tetra Tech Engineering.
3. A draft engineering analysis was completed including scale-up, commercial facility design and costing for a previous potential project site in Midlothian, TX by Bechtel Engineering.
4. A FEED study was initiated with Mustang Engineering for the Bowden, Alberta site.
5. The Issuer commissioned and received the preliminary FEED reports from Stantec and WSP, which confirmed the expected output of up to fifty-five percent (55%) Group III base lubricating oil using ReGen™ as the re-refining process. As well, those reports confirmed previous construction cost estimates and anticipated operating costs for the proposed Bowden Facility.

#### *Description of the Components of the ReGen™ Technology*

The patented ReGen™ re-refining technology process is actually the combination of traditional refining industry standard operations, combined in a unique pattern, at specific design temperature and pressure settings, to generate the lowest production cost, highest profit margin re-refined lubricating base oils, including the ability to produce Group III synthetic grade motor oil in a commercial scale re-refining operation.

There are three principal process steps in the ReGen™ technology for re-refining used motor oil: (1) The Contaminant Separation Unit Phase (“**CSU**”); (2) The Molecular Separation Unit Phase (“**MSU**”); and (3) The Molecular Treatment Unit Phase (“**MTU**”).

A process flow diagram showing the process is as follows:



#### **Process Abbreviation Overview**

**CSU:** Containment Separation Unit - Separation of bulk contaminants, such as water, fuel oil, "heavy" components

**MSU:** Molecular Separation Unit - Separation of "good" base oil molecules from "bad" base oil molecules

**MTU:** Molecular Treatment Unit - Treatment of "bad" base oil molecules to improve quality (Hydro-Treating Process)

The first process step, the CSU, consists of four flash distillation columns staged in series that remove bulk contaminants in the form of asphalt flux (13% of the product stream) which is sold into the roofing and paving industry. The first flash stage also removes light hydrocarbons, water and other polar compounds (~3.3% of the input used motor oil feedstock) which, in the design of the overall process, are captured and are recycled in the system operations to be burned as fuel in the re-refinery furnace generating process heat, with the captured water used as make-up boiler feed water, which in turn is continually captured and recirculated. In the second and third distillation columns, the fuel fraction of the used motor oil is removed from the lubricating oil portion. This product stream (~7.3% of the input feedstock) is sent to the MTU for further refinement as ultra-low sulphur diesel fuel and naphtha. The fourth stage in the CSU removes the heavy and non-volatile fractions to produce a base oil precursor stream which is subsequently fed into the MSU, which produces the Group III base lubricating oil. The “bottoms” from the fourth flash stage are withdrawn as asphalt flux as was noted above.

The MSU is similar to conventional solvent extraction processes however, dewaxing is not a factor (eliminating energy and product loss) as wax was removed during the virgin oil manufacturing process and is no longer present in used motor oil. The MSU liquid extraction system is where the base oil precursor stream from the CSU is treated via a solvent extraction process to produce a synthetic grade base lubricating oil equivalent to API Group III base lubricating oil standards, which in pilot plant testing represented 50% of the input feedstock quantity.

The process works by having the solvent and the output from the CSU (less the fuels cut) flow past each other based on their different specific gravities. The solvent preferentially extracts the non-linear hydrocarbon chains from the CSU output stream. When in balance, a minimum volume of solvent is entrained with the Group III Base Oil output from the MSU and is lost. The bulk of the solvent flows with the ‘bad’ base oil molecules where the solvent is distilled and re-circulated back to the MSU prior to the remaining base oil molecules being sent to the MTU where hydro treating of all of the aromatic, or unsaturated oil molecules suitable for upgrading is performed, producing a Group II base lubricating oil (25% of the initial input volume).

In the original design of the MTU in the ReGen™ process there were a series of hydro treating and catalyst guard towers that function as a catalytic hydro treating system. However, in the revised design proposed by Stantec this conventional hydro treating process is being replaced with a new, more efficient hydro finishing process called IsoTherming which is a liquid hydrogenation process that works best in low volume applications to eliminate guard bed channelling and fouling, which is a major issue for current UMO re-refiners.

The feed input into the MTU is the combined fuel recovery streams from the third and fourth stage distillation stages of the CSU; and the second stream of extracted oil from the MSU. The molecular treatment unit product stream is fed to an oil distillation fractionating system which separates the Group II base oil from the ultra-low sulphur diesel and the naphtha fuel end-use product streams. This process is very similar to the catalytic hydro treatment sections in virgin oil manufacturing.

Of particular note, the ReGen™ process uses 78% less energy than virgin oil production and reduces CO<sub>2</sub> emissions by nearly 80% according to a report prepared by Oak Ridge National Laboratory. The significance of this CO<sub>2</sub> reduction is captured in the estimated \$10M per year of greenhouse-credits that the issuer expects to receive upon commencement of operations of the re-refinery.

#### *Comparison to Other Known Technologies*

Technologies for reusing, recycling, and re-refining used motor oil to produce base lubricating oils have been developed and used over the past fifty (50) years. However, lubricating oils have evolved to meet demands for higher temperature engine operation, extended lubricant stability, reduced wear, and a

variety of environmental requirements. To meet these challenges, increasing amounts of additives and synthetic oils are routinely used to reduce wear, corrosion, foaming, and the pour point, while increasing the viscosity index of the base lubricating oil. These materials have led to the development of increasingly complex used oil recovery and re-refining processes, while rendering old re-refining technologies increasingly obsolete as the requirement for low grade Group I and Group II base lubricating oils is declining.

Used motor oil contains a variety of contaminants introduced into, or produced by, the combustion process (water, oil degradation products) and/or from the engine (metal and metal oxide particles) plus contaminants commonly introduced during oil change and collection operations, such as antifreeze and windshield washing fluid. Contaminants also include the blender's additive package, which can constitute up to 15% of blended lubricating oils. Any given quantity of used motor oil may also contain a variety of different grades and types of base lubricating oils.

By necessity, the recovery methods have become more complex as product and industrial constraints have become more severe. As such, the used motor oil re-refining industry has evolved over time, being subject to pressures from both industry and society. In the early years used motor oil was sometimes filtered and re-used, but most often it was dumped on the ground as a dust suppressant, or simply dumped out as waste to eventually end up in the groundwater, and occasionally, it was burned as a fuel. Over time, efforts were made to recover spent oil and by the mid-1960's, there were more than 100 small companies reprocessing over 378 million liters of used motor oil annually in North America.

Those early processing companies generally employed an acid/clay filtering process to reclaim the used motor oil, which used large amounts of sulphuric acid and clay to treat the used motor oil. Although the technology produced a somewhat acceptable sub-standard base oil, it also created substantial hazardous waste by-products including acid-tar and oil saturated clay. In fact, many of these original acid/clay facilities became US "super-fund" clean-up sites. Beginning in the 1970s, the use of acid clay re-refining was discouraged by environmental regulators and in fact is currently outlawed in most countries around the world including Canada and the United States.

In the late 1970's, alternative processes were developed to treat used motor oil in a more environmentally friendly manner. By and large these efforts were spearheaded by used oil collectors who needed a means of disposing of the oil they gathered. Their primary revenue stream was generated through charges levied in collecting the oil. However, once collected, they needed an economic means of turning the used motor oil into an environmentally acceptable, sellable product. Their focus therefore was not on creating high quality products, but rather in treating a waste stream so that it could be sold and removed from their inventory stockpile.

The first of the next-generation technologies was the Phillips Re-Refined Oil Process ("**PROP**"). This technology was developed during the energy crunch of the 1970s as a potential solution for recovering base lubricating oil from the used motor oil. The PROP technology was successful in producing low quality base lubricating oils however, there were several environmental concerns that arose due to the need to dispose of large quantities of oil soaked, heavy metal laden precipitate and filter media therefore; the Phillips process is not commonly used today.

An early adopter of the PROP technology was Mohawk Oil in Canada who modified it by removing the de-metallization process and added a wiped/thin film evaporator and a different chemical treatment regimen thereby creating, at that time, a novel process. Mohawk's innovations were further adapted by Evergreen Oil and Safety-Kleen Systems Inc. in the United States and formed the basis for the technology that is currently being used by those companies.

The thin/wiped film separation technology separates volatile from less volatile components using indirect heat transfer and mechanical agitation of a flowing product film under controlled conditions. This process is being used with some success however, this process can only produce average quality products and is expensive to operate.

*Comparing the Processes*

While the ReGen™ re-refining process recycles more of the used motor oil and produces higher quality products from that used motor oil, which reduces the amount of used motor oil that is burnt, or disposed of into the environment, there are additional key differences between the technologies that are currently being used today to recycle used motor oil and ReGen™.

In its simplest form, the thin/wiped film process is essentially two steps; wiped film evaporator to effect distillation and hydro treating. Alternatively, the ReGen™ re-refining process utilizes a proprietary multi-stage flash distillation process which results in a lower production of residual waste products.

Following distillation, thin/wiped film immediately hydro treats all the base oil range distillates from the wiped/thin film evaporators whereas ReGen™, using solvent extraction, first separates the “good” long chain carbon base oil molecules from the “bad” short or circular chain carbon molecules which need further refining. The extracting of the desirable long chain carbon molecules provides the Group III base lubricating oil leaving only one third of the initial used motor oil feedstock for further treatment and upgrading.

Additionally, the thin/wiped film process does not upgrade the fuel products generated to remove sulfur and other contaminants, whereas the ReGen™ process does, producing a high yield of high quality base lubricating oil, while also producing ultra-low sulfur diesel and other high-quality by-products.

Operational constraints have also been identified as a major limitation of the thin/wiped film process by virtue of its inability to avoid base oil yield loss when producing higher quality products. Consequently, they apparently can target base oil yield, or target base oil quality, but not both at once. By comparison, the ReGen™ re-refining process produces both high product yield as well as higher product quality.

The ReGen™ technology is a new and significantly improved process that re-refines used motor oil into its highest and best use, far surpassing existing technologies in terms of both the quality and quantity of products produced. The unique design used in the ReGen™ process enables production of API Group II, Group II+ and Group III base lubricating oils and is flexible in that it can adjust product mix and treat the major types of synthetic oils and poly alpha-olefins. Additionally, the ReGen™ distillation recovery process produces the lowest fraction of asphalt flux, which is the lowest value product produced in either the thin/wiped film or the ReGen™ re-refining processes.

*Mohawk/ ReGen™ Process Comparison Chart*

<b>Baseline Process</b>	<b>Process Description</b>	<b>Comparison to ReGen™</b>	<b>Conclusion</b>
Mohawk	utilizes wiped/thin film evaporations to effect distillation	ReGen™ uses a proprietary multi-stage flash distillation process	ReGen™ results in a lower production of residual
Mohawk	hydro-finishes all of the base oil range distillates from the wiped/thin film evaporators	ReGen™ process first separates the good base oil molecules that do not need hydro-treatment from the less desirable molecules that do using solvent extraction	ReGen™ process only hydro-finishes those bad base oil molecules that need further treatment and upgrading

Mohawk	does not upgrade fuel products to remove sulfur and other contaminants	ReGen™ upgrades fuel products to remove sulphur and other contaminants	Greater range of product diversity
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## Operations

Currently there are no active operations of the ReGen™ processes.

### *Site Lease*

The Issuer has signed a letter of intent with Parkland and intends to enter into a definitive lease with Parkland for the development of the Bowden Facility on an existing Parkland-owned refinery site in Bowden, Alberta. The Issuer and Parkland expect to enter into a definitive lease agreement prior to August 1st, 2017. It is currently contemplated that the lease will be a 20-year agreement, with up to 15 years of extension options, and will have a lease cost of \$100,000 per month. In addition to the primary site lease, the Issuer and Parkland expect to enter into: (i) a facility lease, pursuant to which the Issuer will lease storage tank capacity and rail and truck loading and unloading access from Parkland; and (ii) a service agreement, pursuant to which the Issuer will receive rail car and truck loading and offloading services from Parkland.

### *Plant Construction*

The major equipment required for plant construction will be ordered directly from original equipment manufacturers, including the second and third stage fluid extraction and hydro treating equipment. As part of the proposed detailed engineering contract between the Issuer and Stantec, Stantec will provide a process guarantee, including corresponding guarantees from the equipment manufacturers, which will guarantee the proposed output products and volumes expected to be generated in the proposed Bowden Facility.

### *Plant Operations*

The proposed re-refinery has been modelled to operate twenty-four (24) hours per day at optimum efficiency for three hundred and thirty (330) days per year at a proposed nameplate capacity of 2,800 barrels per day production, employing a total of approximately twenty (20) plant operators, maintenance and technical support staff.

### *Environmental Considerations*

A benefit of ReGen™ is the reduction of greenhouse gas emissions. A study completed by Safety-Kleen found that combustion of 100 million gallons of base oil emits 300,000 metric tons of greenhouse gases. Re-refining minimizes greenhouse gas emissions by both decreasing the energy required to produce oil and providing an alternative to burning used oil.

Used motor oil burning emits significant quantities of pollutants including: heavy metals, soot, ash, CO<sub>2</sub>, SO<sub>x</sub>, NO<sub>x</sub>, VOCs, CO, and other Hazardous Air Pollutants (HAPs). However, according to the “2009 GHG Savings Study” from the British Columbia Used Oil Management Association (BCUOMA), it was found that for every litre of used oil that was recycled, 2.47kg of CO<sub>2</sub>e is prevented from being emitted. That means building a 2,800 barrel per day re-refinery operating 330 days per year, which is equivalent to a 147M liter used motor oil re-refining operation, as the proposed Bowden Facility, would reduce the emissions of CO<sub>2</sub> in excess of 360,000 tonnes per year. Greenhouse gas credits currently in place in Alberta could generate approximately \$10MM in annual credits for the Issuer.

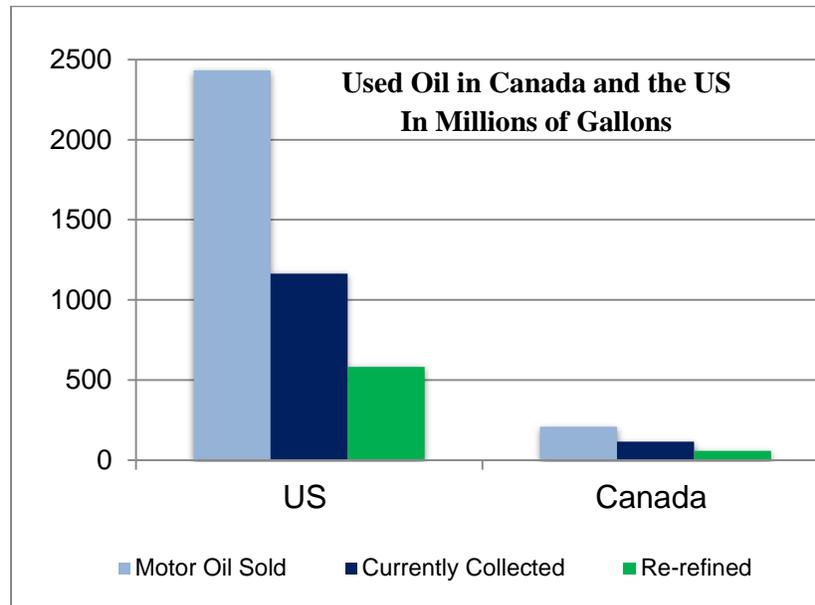
Further, using an internal estimate factor of 7.8 g SO<sub>2</sub> per liter recycled, approximately 780 tonnes per year of SO<sub>2</sub> emissions would be reduced. Compared to normal crude oil production the production of re-refined oil uses 78% less energy. Additionally, the process is a completely closed loop with no petrochemical waste leaving the facility; only treated waste-water is produced.

To obtain those GHG credits, a GHG protocol needs to be written and subsequently passed through the Alberta provincial government regulatory bodies for final approval. This process could take as long as two years to complete at an estimated cost of approximately \$150K over that two-year time frame.

#### *Feedstock of Raw Materials*

When operating at its full 2,800 bpd capacity, the Bowden Facility will require approximately 925,000 barrels per year of used motor oil as feedstock. Based on preliminary discussions with used motor oil collection companies, the issuer expects to have supply contracts in place with used motor oil collectors for 100% of the feedstock required prior to commissioning of the proposed Bowden Facility. As shown in the chart below, of the used motor oil generated in North America only 50% is currently collected and of that approximately 50% is re-refined into base lubricating oils. Approximately 639 million barrels of used motor oil are collected per year in the United States and Canada and are not re-refined. As such, the Issuer believes there is more than ample supply of feedstock for the proposed Bowden Facility.

#### *Used Motor Oil Collection*



**Note:**

(1) Information generated by Issuer from publicly available information.

#### **Market**

##### *Target Market*

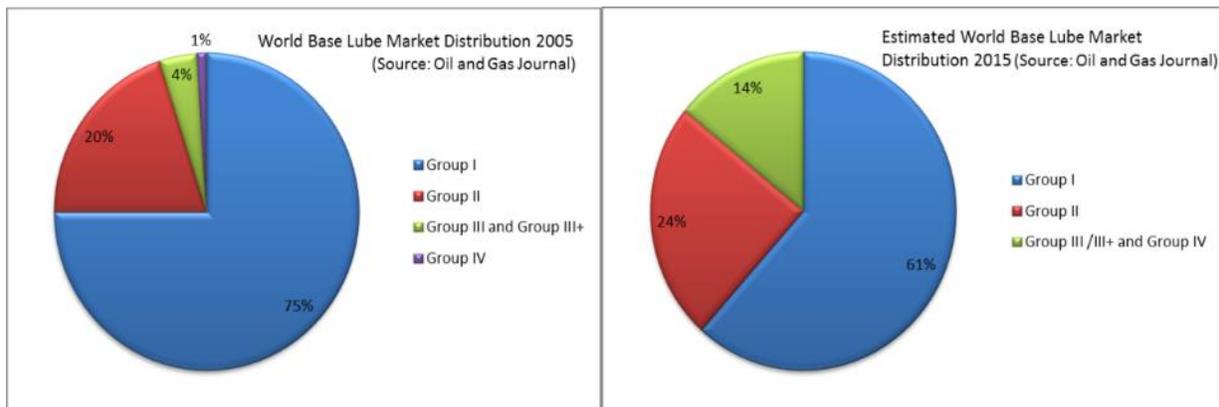
Construction of the proposed re-refinery will be dedicated to capitalizing on the growing demand for re-refined Group II base lubricating oil and more importantly, to enter the Group III base lubrication oil market.

The shift to higher value base lubricating oils is demonstrated in the chart below. It is taken from a study completed by the Oil and Gas Journal in 2013, shows the change of the base lubricating oil market between 2005 and 2015.

The demand for re-refined base lubricating oils as part of this shift in product grade market share was driven in part by companies such as Valvoline, who in 2013 introduced a “green engine oil” product called NexGen, which contains 50% re-refined and 50% virgin Group II base lubricating oils. The US Postal Service, who in response to a 2012 presidential order requiring them to use 50% recycled products in their vehicles, reportedly purchases 100% of Valvoline’s NexGen re-refined blended oil.

The Issuer has commissioned its own marketing study by an independent third party to source potential sales targets for Group III base lubricating oils, particularly within the oil blending industries smaller market players. Currently there are two Group III virgin base lubricating oil refiners in North America. Petro Canada in Oakville, ON produces 4,000 bpd and Calumet in Shreveport, Louisiana produces 400 bpd for a North American market that consumes approximately 16,000 barrels per day. Recently, Avista Oil in Peachtree City, Georgia announced that they now produce 400 bpd of re-refined Group III base lubricating oil for a total North America generated supply of 4,800 bpd. The current 11,200 bpd shortfall (16,000 bpd usage minus 4,800 bpd total north American production) is imported from the Middle East and Asia. The issuer’s proposed production of approximately 1,400 barrels per day of Group III base lubricating oil will be targeted to compete with that import market.

*Base Lube Market*



The table below provides the comparative pricing of base lubricating oil for the past three years as well as the corresponding price changes for West Texas Intermediate (WTI) over the same corresponding period. Counterintuitive to conventional thinking is that while base oil prices have dropped during the past three years, the change in price is less than the corresponding drop in price of WTI, with the price of Group III base oil performing best by only dropping 13.59% since March 2013, versus a 45.67% drop in WTI. That failure in pricing of Group III base oil to move in lockstep with the price of WTI is also shown between 2013 and 2014, where WTI increased 5% in price, while the price of Group III oil remained unchanged. That lack of volatility in the price of Group III base oil is a positive aspect of this project.

In fact, the relative stability of the base oil pricing in general, and the Group III base lubricating oil price in particular, is a strong indicator of the stability of the base oil market.

The relative price differential, and larger price variances between Group I, Group II, Group II+ and Group III also speak to the added benefit of being able to modify the end-use product stream in the ReGen™ technology process.

Price Fluctuations in Base Oil Pricing versus Price Fluctuation of Crude Oil

Product	Mar-13	Mar-14	Jun-15	Jun-16	Mar-17	Jun-17	Percentage Drop from March 2013
	Average Price per Gallon (\$US)						
Crude Oil (WTI) <sup>1</sup>	2.62	2.60	1.50	1.19	1.30	1.15	56.10%
Group I Base Oil <sup>2</sup>	3.52	3.53	2.50	2.20	2.60	2.92	17.04%
Group II Base Oil	3.65	3.40	2.45	2.10	2.40	2.65	25.75%
Group II+ Base Oil	3.57	3.62	2.99	2.72	3.12	3.44	3.64%
Group III Base Oil	5.21	5.21	4.51	4.01	4.26	4.66	10.55%

For purposes of calculating projected revenues, the June 7, 2017 Group II and Group III pricing from the table above have been used in conjunction with current asphalt flux, ultra-low sulphur diesel and naphtha spot prices as indicated in the table below.

*Plant Revenue Generation per Gallon of used motor oil Feedstock*

Commodity Produced	% Plant Yield	Spot Price (per gallon in CAD)	Contribution (\$)
Group III Base Oil	50	6.24	3.12
Group II Base Oil	25	3.55	0.89
Asphalt Flux	13	1.61	0.21
Ultra-low Sulphur Diesel	8	2.15	0.17
Naphtha	1	1.82	0.02
Recycled Water & Plant Fuel	3	0	0
<b>Totals</b>	<b>100%</b>		<b>4.41</b>

The table above indicates that every gallon of feedstock entering the plant, as at June 2017 commodity pricing, generates C\$4.41 per gallon in saleable commodities. That equates to C\$185.22 per barrel (42 gallons per barrel times the price per gallon calculated above of \$4.41, as at June 7, 2017 (assuming a CAD/USD currency exchange rate on that date of \$0.746)).

<sup>1</sup> [https://ycharts.com/indicators/brent\\_crude\\_oil\\_spot\\_price](https://ycharts.com/indicators/brent_crude_oil_spot_price)

<sup>2</sup> Base Oil spot prices taken from weekly US Base Oil reports from Lubes N' Greases

**Competitive Conditions**

The table below lists the major North American producers of re-refined used motor oil and the class or grade of product that they produce.

Company	Locations	Size	Products
Safety-Kleen	Breslau, Ontario	2500 bpd	Group II Base Oil
	Fallon, Nevada	1400 bpd	
	Newark, California	1200 bpd	
	East Chicago, Indiana	5100 bpd	
Terrapure	North Vancouver	650 bpd	Group II Base Oil
Vertex Environmental	Fallon, Nevada	1500 bpd	Group II Base Oil
	Marrero, Louisiana	3900 bpd	Vacuum Gas Oil
	Columbus, Ohio	1200 bpd	Group II Base Oil
	Baytown, Texas	2300 bpd	Low Sulphur Cutter Stock
Avista Oil	Peachtree City, Georgia	1250 bpd	75% Group II, 25% Group III

This map shows existing re-refining operations compiled by the Company in Q4, 2016 as part of its due diligence investigation into the viability of the ReGen™ technology.



**Future Developments**

Concurrent with development of the Bowden Facility, the Company is exploring opportunities to develop ReGen™ facilities at other locations in Canada, the US, Mexico, Australia, and other markets. The Issuer is also investigating opportunities to license the ReGen™ technology in order to access non-core markets and to accelerate the market penetration of ReGen™.

**Proprietary Protection**

The Issuer currently holds four (4) patents that have been granted in North America and has applied to have the name changed from the original inventor to the Issuer on two (2) other patents that have been

granted in India and Singapore. The Issuer also holds twelve (12) other patents applications world-wide that have either been allowed, are pending, are under review or are in the process of being resurrected from abandoned status.

### **PART III - INFORMATION CONCERNING THE ISSUER FOLLOWING THE CHANGE OF BUSINESS**

#### ***CORPORATE STRUCTURE***

##### **Name and Incorporation**

In connection with the Change of Business, the Issuer will be renamed "Gen III Oil Corporation". No other changes to the constating documents of the Issuer will be made. See "*Information Concerning the Issuer – Corporate Structure – Name and Incorporation*".

##### **Intercorporate Relationships**

The Issuer does not have any subsidiaries or intercompany relationships.

#### ***NARRATIVE DESCRIPTION OF THE BUSINESS***

##### **Stated Business Objectives**

The Issuer will develop and construct used motor oil re-refineries using the patented ReGen™ re-refining technology process. The finished products will then be sold to fuel distributors or motor oil blenders, who will market and sell the finished goods.

ReGen™ was the first known process to re-refine used motor oil into Group III (synthetic grade) base lubricating oil, which sells for approximately eighty percent (80%) more than Group II base lubricating oils. Additionally, ReGen™ replaces the current practices of burning used oil (as burner fuel used primarily in heavy industrial and asphalt plants) which contributes significant amounts of heavy metals, soot, sulfur, GHGs and other air contaminants (which is now being limited in many jurisdictions), or by disposing of it to the land/water which has been recognized as significant environmental hazard (one liter of oil can contaminate one million liters of water). Re-refining used motor oil provides the highest end value for this current waste product stream, while also reducing GHG emissions thereby potentially qualifying this process as carbon credit eligible in Alberta.

The Issuer's ownership of ReGen™ will capitalize on the demand for efficient used motor oil re-refining as burning is phased out by producing the highest quality base oils (Group III synthetic grade and Group II and Group II+ base lubricating oil), ultra-low sulphur diesel fuel, asphalt flux used in the roofing industry, a small quantity of naphtha gas and light fuels that will be recycled in the process plant as burner fuel, in an economic and environmentally friendly manner. Testing of the technology to date in a 5 bpd test plant has shown that it is able to process a wide variety of feedstocks at consistently higher yields with low operating costs. Those findings were verified in the independent preliminary front end engineering and design studies that were completed by Stantec and WSP in March 2017.

The Issuer, by virtue of exercising its claim to the ownership of the patents following default on the VeroLube Loan has, or is obtaining ownership of all of the patents that have been granted throughout the world, as well as the rights to all of the patent applications that are currently either pending or are under appeal.

The Issuer's business objectives are to raise funds to complete the construction of the Bowden Facility on the existing Parkland refinery site.

### *Next 12 Months*

During the next 12 months, The Issuer expects to negotiate several definitive agreements related to the Bowden Facility and other potential ReGen™ re-refineries. These agreements include, but are not limited to:

- Site lease agreement with Parkland
- Marketing Off-Take Agreement with Elbow River
- Engineering, design, procurement and construction management contract with Stantec
- Equipment supply agreements with original equipment manufacturers
- Feedstock agreements with used motor oil collectors
- Offtake agreements for the sale of ReGen™ outputs
- Lease agreements for other potential ReGen™ refinery sites

### *Bowden Facility Construction Cost*

The total installed cost of a smaller 1,500 bpd plant was proposed by Mustang in 2013. In June 2016, that cost estimate was factored by Stantec, ILF and WSP, as well as by the Issuer's engineering staff, into Canadian dollars in 2016 pricing, factored for the Alberta construction market. The average estimated total installed cost derived from that analysis is \$57M, with a projected additional \$28M to twin the required portions of the proposed re-refinery to construct a 2,800 bpd plant, bringing the total installed cost budget to \$85M.

The pre-FEED studies from Stantec and WSP provided a new cost estimate in the amount of \$89.4M for a 2,800 bpd facility. Included in that cost estimate were estimated turn-key package prices from the manufacturers of the proposed fluid/fluid extraction system, as well as from the proposed hydro finishing manufacturer. The price estimates from Stantec and WSP assumed that all major components of the re-refinery will be fabricated off-site and then will be shipped to Bowden for assembly thereby further reducing the anticipated cost of building that facility.

### *Proposed Bowden Facility Construction Schedule*

Based on a preliminary construction schedule prepared by the Issuer in conjunction with input received from Stantec, WSP and Parkland, using as an estimate at this time of what is considered to be the likely time frame required for the Issuer to obtain the requisite permitting to construct the proposed Bowden Facility, it is anticipated that construction on the Bowden Facility will commence during the last quarter of 2017 and could be completed by the last quarter of 2018.

*Perceived Risks with Stated Business Objectives*

In addition to the risks outlined under the heading “*Risk Factors*” herein, the stated business objectives of the Company are also subject to the following specific risks.

<b>Risk</b>	<b>Consequence / Impact</b>	<b>Mitigation / Contingency</b>
<b>Technical Feasibility</b>	Technology will not be able to accept diversified feedstock and produce multiple product streams	<ul style="list-style-type: none"> <li>• The ReGen™ process has been extensively evaluated at prototype scale with used motor oil collected from around the globe</li> <li>• Constructed and operated a prototype facility to evaluate a wide range of feedstock and operating conditions</li> <li>• Prototype was large enough to prepare pre-commercial base oils for evaluation</li> </ul>
<b>Modularization and Scalability</b>	Limited ability to deploy technology at multiple sites	<p>Completed a detailed engineering analysis, including:</p> <ul style="list-style-type: none"> <li>• Commercial facility design and costing</li> <li>• Based on models and pilot tests, scale-down from current similar processes appears to be feasible. Proven unit operations are expected to reduce construction time, installed spares, and unscheduled down time</li> </ul>
<b>Construction</b>	Delays in construction	<ul style="list-style-type: none"> <li>• Standard equipment and materials to ensure predictable equipment performance</li> <li>• Process guarantees to ensure performance of specific sub-sections of plant</li> <li>• Operator training by design engineers and equipment manufacturers to ensure operations conform to design/construction</li> </ul>
<b>Engineering</b>	Failures in fundamental engineering design/core technology	<ul style="list-style-type: none"> <li>• A prototype plant was constructed and operated to evaluate a wide range of process feedstock and operating conditions</li> <li>• A third-party technology validation was completed by a US Department of Energy laboratory (Oak Ridge National Laboratory)</li> <li>• A draft engineering analysis was completed including scale-up, commercial facility design and costing for a previous potential project site in Midlothian, TX</li> <li>• Pre-FEED studies completed by Stantec and WSP confirmed proposed finished product quality and quantity anticipated in previous studies</li> </ul>
<b>Technology IP</b>	Copying of technology	<ul style="list-style-type: none"> <li>• Initial US patent for core technology granted in 2013 with three additional North American patents subsequently being granted. Patents in India and Singapore being transferred from the inventor to the Issuer</li> <li>• 12 additional process patents filed worldwide pending approval</li> </ul>
<b>Supply Chain Infrastructure</b>	Shortage of Feedstock	<ul style="list-style-type: none"> <li>• Purchase waste oil from collectors or from commercial entities and recyclers supported through regional collection programs. This ensures a consistent supply and lower potential contamination</li> <li>• Ample feedstock readily available</li> <li>• Sensitivity analyses relative to crude oil price performed</li> </ul>

## **DESCRIPTION OF THE SECURITIES**

The Common Shares of the Issuer will not be affected by the Change of Business. Please see “*Information Concerning the Issuer – Description of the Securities*”.

## **CONSOLIDATED CAPITALIZATION**

### **Consolidated Capitalization of the Issuer**

There is no effect to the consolidated capitalization of the Issuer as a result of the Change of Business.

### **Fully Diluted Share Capital**

The following table outlines the number and percentage of Common Shares of the Issuer as of the date hereof. There will be no change to these amounts due to Change of Business.

	<u>Number of Securities</u>	<u>Percentage of Total Fully Diluted Common Shares</u>
Common Shares issued and outstanding as of the date hereof	48,448,954	83%
Common Shares reserved for issuance pursuant to exercise of Options	4,175,000	7%
Common Shares reserved for issuance pursuant to Common Share purchase warrants	5,500,000	10%
Total Common Shares outstanding on a fully diluted basis.	58,123,954	100%

## **AVAILABLE FUNDS AND PRINCIPAL PURPOSES**

### **Available Funds**

Currently the Issuer has \$1,017,000 of working capital available. There is no financing being conducted in connection with the Change of Business.

In order to achieve the stated business objectives as discussed herein, the Issuer would be required to obtain additional financing. See “*Risk Factors*”.

## Principal Purposes of Funds

The Issuer expects to use the total funds available set forth above for the principal purposes described below:

Use of Funds	Estimated Amount
Estimated expenses of Exchange application for Change of Business (includes legal fees, filing fees and other administrative and incidental expenses)	\$20,000
Satisfaction of estimated general administrative and other operational expenses of the Issuer for 18 months from the date hereof	\$897,000
General corporate expenses and working capital	\$100,000

The Issuer intends to spend the funds available as stated in this Filing Statement. There may be circumstances however, where for sound business reasons, a reallocation of funds may be necessary. See "*Risk Factors*".

## Dividends

No dividends on the Common Shares have been paid by the Issuer to date. Payment of any future dividends will be at the discretion of the board of directors of the Issuer after taking into account many factors, including the Issuer's operating results, financial condition and current and anticipated cash needs.

## PRINCIPAL SECURITYHOLDERS

To the knowledge of the directors and officers of the Issuer, no person beneficially owns, directly or indirectly, or exercises control or direction over, shares carrying more than 10% of voting rights attached to the outstanding Common Shares.

## DIRECTORS, OFFICERS AND PROMOTERS

### Name, Address, Occupation and Security Holdings

The following are the names and municipalities of residence of each director and officer of the Issuer, the positions and offices held with the Issuer, their respective principal occupations within the five preceding years and the number and percentage of Common Shares of the Issuer held by each of them.

Name and city of residence of each Director and Officer	Position held with the Issuer	Principal Occupation for the last five years	Director or Officer of since	Number and Percentage of Common Shares <sup>(1)</sup>
<b>Gregory Clarkes</b> <sup>(2)(3)</sup> Vancouver, British Columbia, Canada Age 60	Director, Chairman and CEO	CEO, Chairman and Director of Issuer	June 7, 2011	3,502,758 7.23%
<b>Larry Van Hatten</b> <sup>(2)(3)</sup> West Vancouver, British Columbia, Canada Age 66	Director	Independent Businessman	June 7, 2011	780,864 1.61%
<b>Paul DiPasquale</b> <sup>(2)(3)</sup> Vancouver, British Columbia, Canada Age 68	Director	Independent Businessman	June 7, 2011	464,411 0.96%

Name and city of residence of each Director and Officer	Position held with the Issuer	Principal Occupation for the last five years	Director or Officer of since	Number and Percentage of Common Shares <sup>(1)</sup>
<b>John Detmold</b> Mexico City, Mexico Age 60	Director	Independent Businessman	September 23, 2011	1,864,039 3.85%
<b>Bryan Nethery</b> Vancouver, British Columbia, Canada Age 69	Director	Professional Engineer	August 14, 2012	538,454 1.11%
<b>George Davidson</b> Calgary, Alberta Canada Age 64	President	Businessman and President of Issuer	November 24, 2016	402,000 0.83%
<b>Angelo Battiston</b> St. Albert, Alberta Canada Age 49	Chief Operating Officer	Independent Businessman	June 1, 2017	Nil Nil
<b>Rick Low</b> Burnaby, British Columbia, Canada Age 60	CFO	CFO of Issuer	September 18, 2012	Nil Nil
<b>Christina Boddy</b> Surrey, British Columbia, Canada Age 38	Corporate Secretary	Principal, Rhodanthe Corporate Services – Corporate Secretarial Consultant	March 21, 2013	Nil Nil

**Notes:**

- (1) The number of Common Shares owned, controlled or directed by each Director/Officer, not being within the knowledge of the Company, has been furnished by each Director/Officer individually.
- (2) Member of the Audit Committee, each Audit Committee member is “financially literate”, within the meaning of National Instrument 52-110 and possesses education or experience that is relevant for the performance of their responsibilities as Audit Committee members.
- (3) Member of the Compensation Committee.
- (4) No changes to the Board are anticipated in connection with the Change of Business.

*Shareholdings of Directors and Officers*

As at the date hereof, the directors and officers of the Company as a group owned, directly or indirectly, or controlled or directed, in aggregate 7,552,526 Common Shares or approximately 15.6% of the issued and outstanding Common Shares.

**Management**

Gregory Clarkes, Chairman & CEO, age 60, has 30 years of experience raising capital for private and public companies in the resource, industrial, entertainment and technology sectors. Mr. Clarkes has assisted several companies formulate business plans and strategies resulting in the successful utilization of financial resources. Mr. Clarkes is the founder, director, and chairman of Rainmaker Digital Pictures and of Skye Resources Inc., which was sold to HudBay Minerals Inc. for \$460 million.

George Davidson, President, age 64, studied civil engineering at the University of Western Ontario and received his MBA from the Richard Ivey School of Business. During Mr. Davidson's 35 year work career, he has gained extensive experience in multi-million dollar construction projects as site engineer, estimator, project manager and president in both Canadian and North African projects. Previously, Mr. Davidson was the Vice President Operations for a major North American supply chain company and has experience heading business development groups on multi-million dollar commercial and industrial construction projects with a specific emphasis on oil re-refining and product enhancement projects.

Angelo Battiston, Chief Operating Officer, age 49, holds a Bachelor's degree in Engineering, a Master's degree in Systems Engineering, a Project Management Professional certification, and is a graduate of numerous senior executive leadership and management courses and programs. Mr. Battiston has over 25 years' experience leading large and small multidisciplinary teams. Previously, Mr. Battiston was as a senior project manager with Stantec Consulting responsible for leading engineering, procurement, and construction management for complex oil and gas facility projects. Prior to that, Mr. Battiston held numerous executive leadership appointments in the Canadian Army.

Rick Low, Chief Financial Officer, age 60, holds a bachelor of commerce from the University of British Columbia and is a qualified Chartered Professional Accountant (CA) with the Chartered Professional Accountants of B.C. Mr. Low has over 20 years of progressive management experience in various industries in Canada and overseas. Mr. Low has over ten years senior management experience including as CFO and board director. He oversaw the finance and accounting function for a gold mining project during its progression from exploration, feasibility, construction and development through to commercial production. Mr. Low has also participated in raising various debt and equity financings and applications for listing on stock exchanges.

### **Cease Trade Orders or Bankruptcies**

Other than as discussed below, as at the date of this Filing Statement, no director or officer of the Issuer is, or has been, within 10 years before the date of this Filing Statement: (i) a director, chief executive officer or chief financial officer of any company that, while that person was acting in that capacity was subject to a cease trade order (including any management cease trade order which applied to directors or executive officers of a company, whether or not the person is named in the order) or an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days (an "**Order**"); or (ii) subject to an Order that was issued after the director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; or (iii) a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

As at the date of this Filing Statement, no director or officer of the Issuer has, within the 10 years before the date of this Filing Statement, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director.

Other than as discussed below, as at the date of this Filing Statement, no director or officer of the Issuer has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory

authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable shareholder in deciding whether to vote for a director.

In May 1997, Mr. Clarkes entered into a settlement agreement with the Autorité des Marchés Financiers. Mr. Clarkes admitted that in February 1995, he effected trades of a publicly traded company through Longshot Capital Inc. (“**Longshot**”), his private company, while he possessed insider information. Longshot paid the sum of \$113,512 to cover the settlement and, in part, the inquiry costs of the Autorité des Marchés Financiers.

On November 17, 2006, Mr. DiPasquale entered into a settlement agreement with the Investment Dealers Association. Mr. DiPasquale admitted that between July 1998 and June 2001, while registered in a supervisory position at an investment firm, he failed to effectively supervise the activities of an investment representative and failed to ensure that effective supervision of such investment representative was achieved. Mr. DiPasquale paid the sum of \$100,000 and agreed to certain prohibitions on his registration.

Mr. Low has been the chief financial officer of Silcom Systems Inc. (“**Silcom**”) since May 1, 2017. On August 7, 2015, a cease trade order was issued against Silcom for failure to file annual and interim continuous disclosure filings which remains in effect as at the date hereof.

### **Conflicts of Interest**

Directors and officers of the Issuer may also serve as directors and/or officers of other companies engaged in mineral exploration, development and mining and may be presented from time to time with situations or opportunities which give rise to apparent conflicts of interest which cannot be resolved by arm’s length negotiations but only through exercise by the officers and directors of such judgment as is consistent with their fiduciary duties to the Issuer which arise under applicable corporate law, especially insofar as taking advantage, directly or indirectly, of information or opportunities acquired in their capacities as directors or officers of the Issuer. It is expected that all conflicts of interest will be resolved in accordance with the BCBCA. It is expected that any transactions with officers and directors will be on terms consistent with industry standards and sound business practice in accordance with the fiduciary duties of those persons to the Issuer, and, depending upon the magnitude of the transactions and the absence of any disinterested board members, may be submitted to the shareholders for their approval.

### **Other Reporting Issuer Experience**

The following table sets out the directors, officers and promoters of the Issuer that are, or have been within the last five years, directors, officers or promoters of other reporting issuers:

<b>Name</b>	<b>Name of Reporting Issuer</b>	<b>Exchange or Market</b>	<b>Position</b>	<b>From</b>	<b>To</b>
Gregory Clarkes	GEN III Oil Corporation	TSXV	Director, Chairman and CEO	June 7, 2011	Present
	MENA Hydrocarbons	TSXV	Director	May 25, 2011	December 31, 2014
Larry Van Hatten	GEN III Oil Corporation	TSXV	Director	June 7, 2011	Present

	Zorro Capital Inc.	TSXV	Director	November 30, 2012	August 31, 2016
	Vanoil Energy Inc.	TSXV	Director	May 23, 2012	May 4, 2015
	Khot Infrastructure Holdings, Ltd.	CSE	Director	November 14, 2011	May 4, 2015
	Para Resources Inc.	TSXV	Director	November 23, 2010	June 24, 2013
Paul DiPasquale	GEN III Oil Corporation	TSXV	Director	June 7, 2011	Present
	Hansa Resources Limited	TSXV	Director	April 20, 2011	Present
	Red Hill Resources Corp.	TSXV	Director	March 1, 2012	August 11, 2014
John Detmold	GEN III Oil Corporation	TSXV	Director	October 14, 2011	Present
	Black Iron Inc.	TSX	Director	March 29, 2011	Present
	Kimber Resources Inc.	TSX	Director	November 21, 2013	January 8, 2014
Bryan Nethery	GEN III Oil Corporation	TSXV	Director	August 14, 2012	Present
	Kimber Resources Inc.	TSX	Director and CEO	November 21, 2013	January 8, 2014
George Davidson	GEN III Oil Corporation	TSXV	President	November 24, 2016	Present
Angelo Battiston	GEN III Oil Corporation	TSXV	COO	June 1, 2017	Present
Rick Low	GEN III Oil Corporation	TSXV	CFO	September 18, 2012	Present
	CWN Mining Acquisition Corporation	TSXV	Director	June 8, 2016	Present
	AM Gold Inc.	TSXV, FWB	Director and CFO	May 12, 2014	August 31, 2016
	Bayhorse Silver Inc.	TSXV	CFO	September 30, 2016	Present
	Silcom Systems Inc.		CFO	May 1, 2017	Present
Christina Boddy	GEN III Oil Corporation	TSXV	Corporate Secretary	March 21, 2013	Present
	ALX Uranium Corp.	TSXV	(to all companies)	December 1, 2016	Present

Nevada Sunrise Gold Corporation	TSXV	August 26, 2013	Present
Eureka Resources, Inc.	TSXV	June 11, 2015	Present
Aton Resources Inc.	TSXV	May 16, 2014	Present
DuSolo Fertilizers Inc.	TSXV	April 1, 2016	Present
Levon Resources Ltd.	TSX	March 31, 2015	Present
Resinco Capital Partners Ltd.	TSX then TSXV	April 1, 2011	November 1, 2012
Teslin River Resources Corp.	TSXV	June 29, 2011	November 30, 2012
Lions Gate Metals Inc.	TSXV then CSE	April 1, 2012	January 15, 2015
VBI Vaccines Inc.	TSX, NASDAQ	March 31, 2015	July 9, 2015

### **EXECUTIVE COMPENSATION**

No significant changes are expected to the current executive compensation strategy of the Issuer in connection with the Change of Business. It is anticipated that the executive compensation structure and philosophy will continue to comply in all material respects with the applicable policies and guidelines of the Exchange and of the Canadian Securities Administrators, including National Policy 58-201 – *Corporate Governance Guidelines* (the “**Governance Guidelines**”). The Governance Guidelines deal with matters such as the constitution and independence of corporate boards, their functions, the effectiveness and education of board members and other items dealing with sound corporate governance practices. See “*Information Concerning the Issuer – Executive Compensation*”.

### **INVESTOR RELATIONS ARRANGEMENTS**

The Issuer does not have any written or oral agreement or understanding with any person to provide any promotional or investor relations services for the Issuer.

### **OPTIONS TO PURCHASE SECURITIES**

#### **Options to Purchase Securities**

An aggregate of 4,175,000 Common Shares are reserved for issuance under the Stock Option Plan. The following table sets out information, as of the date of this Filing Statement, all Options issued and outstanding.

<b>Name of Optionee</b>	<b>Number</b>	<b>Exercise Price (\$)</b>	<b>Expiry Date</b>
Gregory Clarkes	150,000	1.75	8/27/2017
Gregory Clarkes	1,700,000	0.17	2/8/2019
George Davidson	300,000	0.17	2/8/2019
John Detmold	110,000	1.75	8/27/2017
John Detmold	200,000	0.17	2/8/2019
Paul DiPasquale	60,000	1.75	8/27/2017
Paul DiPasquale	200,000	0.17	2/8/2019
Wesley Marstaller	100,000	0.46	7/29/2017
Bryan Nethery	120,000	1.75	8/27/2017
Bryan Nethery	200,000	0.17	2/8/2019
Larry Van Hatten	60,000	1.75	8/27/2017
Larry Van Hatten	400,000	0.17	2/8/2019
Christina Boddy	25,000	0.17	2/8/2019
Jennifer Tong	20,000	1.75	8/27/2017
Jennifer Tong	50,000	0.17	2/8/2019
Kevin Vergel	25,000	0.72	5/17/2019
Alana Donaghey	25,000	0.72	5/17/2019
Paisley Dressler	25,000	0.72	5/17/2019
Brad Lively	25,000	0.72	5/17/2019
Rick Low	40,000	0.72	5/17/2019
Zac Moore	40,000	0.72	5/17/2019
Angelo Battiston	300,000	0.72	6/1/2019
<b>TOTAL</b>	<b>4,175,000</b>		

### **Stock Option Plan**

For information on the Issuer's Stock Option Plan, please see “*Information Concerning the Issuer – Stock Option Plan*”. No changes to the Issuer's Stock Option Plan are contemplated in connection with the Change of Business.

### **ESCROWED SECURITIES**

#### **Escrowed Common Shares**

No Common Shares of the Issuer are held in escrow and no Common Shares will be held in escrow in connection with the Change of Business.

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Issuer are Ernst & Young LLP whose principal office is located at Vancouver, Canada. The transfer agent and registrar for the Issuer is Computershare Trust Company of Canada at its office located at Vancouver, Canada.

## **PART IV – GENERAL MATTERS**

### **SPONSORSHIP**

#### **Sponsor**

The Issuer has obtained an exemption from the sponsorship requirements of the Exchange in connection with the Change of Business.

***INTERESTS OF EXPERTS***

The Issuer used Ernst & Young LLP for external audit services for the fiscal year ended December 31, 2015 and 2016. Ernst & Young LLP has advised that it is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia.

***OTHER MATERIAL FACTS***

The Issuer is not aware of any other material facts relating to the Issuer or the Change of Business that are necessary in order for this Filing Statement to contain full, true and plan disclosure of all material facts relating to the Issuer and the Change of Business.

***BOARD APPROVAL***

The Board has approved this Filing Statement.

**FINANCIAL STATEMENT REQUIREMENTS**

***FINANCIAL STATEMENTS OF THE ISSUER***

Attached to and forming part of this Filing Statement are:

Schedule A: Annual Financial Statements of the Issuer for the years ended December 31, 2016, 2015 and 2014 and Unaudited Interim Financial Statements of the Issuer for the three months ended March 31, 2017 and March 31, 2016.

Schedule B: Management's Discussion and Analysis of the Issuer for the years ended December 31, 2016, 2015 and 2014, and for the three months ended March 31, 2017 and March 31, 2016.

**SCHEDULE "A"**  
**FINANCIAL STATEMENTS OF THE ISSUER**

(See attached)

**PNG Gold Corporation**

Consolidated Financial Statements  
For the Year Ended December 31, 2016  
(Expressed in Canadian dollars)

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**PNG Gold Corporation**

Consolidated Financial Statements  
(Expressed in Canadian dollars)

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## Management's Report

The accompanying consolidated financial statements of PNG Gold 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  
Chief Executive Officer

(Signed) Rick Low  
Chief Financial Officer

Vancouver, British Columbia, Canada

April 26, 2017

## Independent auditors' report

To the Shareholders of  
**PNG Gold Corporation**

We have audited the accompanying consolidated financial statements of **PNG Gold Corporation**, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, changes in (deficit) equity 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 **PNG Gold Corporation** as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada  
April 26, 2017

*Ernst & Young LLP*

Chartered Professional Accountants



**PNG Gold Corporation**  
Consolidated Statements of Financial Position  
(Expressed in Canadian dollars)

	December 31, 2016	December 31, 2015
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	442,663	832,747
Accounts receivable	28,040	12,165
Prepaid expenses	78,033	69,194
	548,736	914,106
<b>Property and equipment</b> (note 4)	8,328	532,302
<b>Mineral interests</b> (note 5)	-	216,819
<b>Investments</b> (note 6)	30,621	22,966
<b>Total assets</b>	<b>587,685</b>	<b>1,686,193</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 7)	760,024	249,102
Accrued tax provision	872,833	829,452
	1,632,857	1,078,554
<b>Shareholders' (Deficit) Equity</b>		
<b>Share capital</b> (note 8)	64,041,965	63,540,233
<b>Contributed surplus</b>	7,374,187	7,374,187
<b>Accumulated deficit</b>	(72,139,561)	(69,986,586)
<b>Accumulated other comprehensive income (loss)</b>		
Cumulative translation adjustments	(352,384)	(343,161)
Unrealized gain on available-for-sale investments	30,621	22,966
Total shareholders' (deficit) equity	(1,045,172)	607,639
<b>Total liabilities and shareholders' (deficit) equity</b>	<b>587,685</b>	<b>1,686,193</b>

Nature of operations (note 1)  
Commitments (note 12)  
Subsequent events (note 16)

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 consolidated financial statements

**PNG Gold Corporation**

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Expense</b>		
Amortization (note 4)	-	9,901
Exploration (note 5)	256,692	463,672
General and administration	228,820	322,589
Investor relations	18,063	11,856
Professional fees	475,350	293,000
Salaries and benefits (note 7)	786,292	966,220
Travel and accommodation	10,690	63,750
	<b>1,775,907</b>	<b>2,130,988</b>
<b>Other (income) expense</b>		
Interest income (note 7)	(175,306)	(192,503)
Foreign exchange gain	(1,179)	(689)
Loss on disposal of property and equipment (note 4)	76,478	-
Impairment loss (notes 4, 7 and 9)	477,075	1,435,648
	<b>377,068</b>	<b>1,242,456</b>
<b>Net loss for the year</b>	<b>2,152,975</b>	<b>3,373,444</b>
<b>Other comprehensive (income) loss</b>		
Other comprehensive (income) loss to be reclassified to profit or loss in subsequent periods:		
Unrealized (gain) loss on available-for-sale investments	(7,655)	11,483
Exchange difference on translating foreign operations	9,223	(27,295)
	<b>1,568</b>	<b>(15,812)</b>
<b>Total comprehensive loss for the year</b>	<b>2,154,543</b>	<b>3,357,632</b>
<b>Loss per share – basic and diluted</b>	<b>0.08</b>	<b>0.13</b>
<b>Weighted average number of shares outstanding - basic and diluted</b>	<b>26,536,936</b>	<b>26,233,657</b>

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

**PNG Gold Corporation**

Consolidated Statements of Changes in (Deficit) Equity  
(Expressed in Canadian dollars)

	Share capital	Contributed surplus	Accumulated deficit	Cumulative translation adjustments	<u>Accumulated other comprehensive income (loss)</u> Unrealized gain (loss) on available- for-sale investments	Total
	\$	\$	\$	\$	\$	\$
<b>Balance as at December 31, 2014</b>	63,540,233	7,374,187	(66,613,142)	(370,456)	34,449	3,965,271
Loss for the year	-	-	(3,373,444)	-	-	(3,373,444)
Other comprehensive income (loss)	-	-	-	27,295	(11,483)	15,812
<b>Balance as at December 31, 2015</b>	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)
<b>Balance as at December 31, 2016</b>	64,041,965	7,374,187	(72,139,561)	(352,384)	30,621	(1,045,172)

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

**PNG Gold Corporation**  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2016 and 2015  
(Expressed in Canadian dollars)

	2016	2015
	\$	\$
<b>Operating activities</b>		
Net loss for the year	(2,152,975)	(3,373,444)
Adjustments for items not involving cash		
Amortization (note 4)	56,740	229,136
Accrued interest income	(164,613)	(173,748)
Loss on disposal of property and equipment	76,478	-
Impairment loss (note 9)	477,075	1,435,648
Effect of foreign exchange on cash	55,717	(9,078)
	(1,651,578)	(1,891,486)
Net change in non-cash working capital		
Accounts receivable	(15,637)	1,183
Prepaid expenses	(8,839)	(8,158)
Accounts payable and accrued liabilities	554,303	68,914
Net cash flows used in operating activities	(1,121,751)	(1,829,547)
<b>Financing activities</b>		
Issuance of share capital (note 8)	555,000	-
Share issuance costs (note 8)	(53,268)	-
Net cash flows from (used in) financing activities	501,732	-
<b>Investing activities</b>		
Loan receivable (note 7)	-	(112,613)
Disposal of property and equipment	229,935	-
Net cash flows from investing activities	229,935	(112,613)
Decrease in cash and cash equivalents during the year	(390,084)	(1,942,160)
Cash and cash equivalents, beginning of the year	832,747	2,774,907
<b>Cash and cash equivalents, end of the year</b>	<b>442,663</b>	<b>832,747</b>

Supplemental cash flow information (note 13)

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

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

PNG Gold Corporation (the "Company" or "PNG Gold") is incorporated under the laws of British Columbia. The Company's principal business activities were related to its 100% interest in the Normanby exploration license and the Sehulea exploration license, on Normanby Island, eastern Papua New Guinea.

On February 4, 2015, the Company and VeroLube Inc. ("VeroLube") entered into a binding term sheet (the "Term Sheet") providing for the acquisition by the Company of VeroLube, a private company incorporated under the federal laws of Canada (the "Business Combination"). On February 16, 2016, the Company announced that it will not be proceeding with the Business Combination.

The Company took security in relation to the VeroLube loans over certain patents that relate to a process for recycling used oil ("ReGen<sup>TM</sup> Process"). The Company has certain non-exclusive rights in relation to the use of the patents (see notes 7 and 16(a)).

On November 2, 2016, the Company announced that it proposes to complete a non-brokered private placement to use a portion of the proceeds of the financing to complete engineering studies to assess the viability of the ReGen<sup>TM</sup> Process; to undertake additional patent work regarding the ReGen<sup>TM</sup> Process; and to provide a deposit to secure a potential plant site in Alberta. If the proposed engineering studies show that the oil recycling process is viable then the Company will have to prepare a comprehensive business plan in relation to pursuing this business. Substantial additional funding would be required in order to pursue the oil recycling business. Prior to taking any further steps in this regard the Company will have to take the necessary steps to apply to the TSX Venture Exchange for a change of business.

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, 2016, the Company had a working capital deficit of \$1,084,121, had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the year ended December 31, 2016, the Company reported a comprehensive loss of \$2,154,543 and as at December 31, 2016, had an accumulated deficit of \$72,139,561. 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 December 31, 2016 (see note 16 (c) and (f)).

The Company's address is P.O. Box 93070, Caulfield Village, West Vancouver B.C., V7W 3G4, Canada.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **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 for mineral interests, and depreciable property and equipment that have been measured at fair value less cost of disposal and impairment charge and investments that have been measured at fair market value.

These consolidated financial statements for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on April 26, 2017.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### (a) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, and its wholly owned subsidiaries (the “Group”): NMC Mining Corp, a corporation existing under the federal laws of Canada, 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 and Normanby Mining AUS Pty Limited (“Normanby AUS”), a corporation existing under the laws of Australia. Normanby AUS was dissolved on December 9, 2015 with no significant impact on the consolidated financial statements. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over investee. All significant inter-company transactions and balances have been eliminated upon consolidation.

#### (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.

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.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Foreign Currency Translation (continued)

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 is carried at cost, less accumulated depreciation and accumulated impairment losses or at the lower of its 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.

Depreciation is provided for at the following rates:

<b>Assets – Corporate head office</b>	<b>Rate</b>
Computer equipment	55% declining balance method
Furniture	20% declining balance method
<b>Assets – Normanby PNG</b>	<b>Rate</b>
Drilling equipment	7 years, straight-line method

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (d) Property and Equipment (continued)

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.

#### (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.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (f) Financial Instruments (continued)

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 is classified as loans-and-receivables, loan receivable is classified as held-to-maturity 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 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

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (f) Financial Instruments (continued)

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, 2016, the Company has not incurred any legal or constructive obligations as a result of its exploration and evaluation activities, except for landowner compensation that have been included in accounts payable and accrued liabilities.

#### (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.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (h) Income Taxes (continued)

##### (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.

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.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (h) Income Taxes (continued)

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 of the agreement to issue shares as determined by the Board of Directors.

#### (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 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.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(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. The fair value of equity instruments issued for exploration and evaluation assets are charged to exploration expense.

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.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (l) Segmented Reporting

The Company operates in four geographical areas. The parent's head office is located in Canada and its exploration and evaluation activities are located in Papua New Guinea. In addition, the Company has subsidiaries in Barbados and a subsidiary in Australia that was dissolved on December 9, 2015.

#### (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.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Significant Accounting Estimates and Judgments (continued)

##### 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 following:

- i. The carrying value and the recoverability of property and equipment and exploration and evaluation assets

The application of the Company's accounting policy for identifying impairment indicators under IFRS requires judgment. If indicators are identified, the determination of recoverable amount of property and equipment and capitalized exploration and evaluation assets requires judgment in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

- ii. The carrying value of loan receivable

The fair value of the loan receivable is based on the length to maturity of the loan, the collateral available to the Company, the risk of repayment default and other consideration exchanged. Changes in assumptions, valuation of other consideration exchanged or new information becoming available, can materially affect the fair value of the loan receivable. The fair value of other consideration exchanged is based on a combination of the Black-Scholes valuation model and comparisons to a composite of comparable publically traded companies. The Black-Scholes valuation model incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimates.

VeroLube granted to the Company a royalty-free, non-exclusive, perpetual license to use VeroLube's patented ReGen™ Process in North America, Central America and South America. No value was allocated to the perpetual license for the non-exclusive use of the ReGen™ technology because the technology has never been in commercial production and therefore, it was not possible to reliably estimate the future cash flows (see note 7).

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (n) Significant Accounting Estimates and Judgments (continued)

##### Critical accounting judgments

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

- i. The analysis of the functional currency for each entity of the Group - In accordance with IAS 21, the Effects of Changes in Foreign Exchange Rates, management determined that the functional currency of Normanby PNG is the Papua New Guinea Kina and for all other entities within the Group, the functional currency is the Canadian dollar, as these are the currencies of the primary economic environment in which the companies operate.
- ii. 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 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.

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.

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements  
**For the years ended December 31, 2016 and 2015**  
 (Expressed in Canadian dollars)

**4. PROPERTY AND EQUIPMENT**

	<b>Computer and Equipment \$</b>	<b>Furniture \$</b>	<b>Land \$</b>	<b>Drilling Equipment \$</b>	<b>Total \$</b>
<b>Cost</b>					
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)	(191,010)
Foreign exchange movement	-	-	-	(99,069)	(70,563)
Balance as at December 31, 2016	-	-	8,328	-	8,328
<b>Accumulated amortization</b>					
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)	(78,310)
Foreign exchange movement	-	-	-	(34,485)	(22,798)
Balance as at December 31, 2016	-	-	-	-	-
<b>Carrying amounts</b>					
Balance as at December 31, 2015	-	-	8,328	523,974	532,302
Balance as at December 31, 2016	-	-	8,328	-	8,328

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Allocation of amortization</b>		
Amortization	-	9,901
Exploration	56,740	219,235
Total amortization	56,740	229,136

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

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### 4. PROPERTY AND EQUIPMENT (continued)

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. 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.

### 5. MINERAL INTERESTS

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	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

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

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**5. MINERAL INTERESTS (continued)**

	Papua New Guinea		
	Normanby	Sehulea	Total
	\$	\$	\$
Exploration expense:			
Administration	44,738	16,541	61,279
Consulting	33,222	20,947	54,169
Equipment	110,598	109,818	220,416
Field supplies	1,409	851	2,260
Legal	11,938	11,938	23,876
Transportation	9,273	3,720	12,993
Travel	13,312	8,676	21,988
Wages	52,165	14,526	66,691
Year ended December 31, 2015	276,655	187,017	463,672
Cumulative to December 31, 2014	25,052,975	2,210,325	27,263,300
Cumulative to December 31, 2015	25,329,630	2,397,342	27,726,972

Under Papua New Guinea (“PNG”) mining laws, the PNG government has the right to elect at any time prior to commencement of mining, to make a single purchase of up to 30% equity interest in any mineral discovery arising from the Company’s exploration licenses, at a price prorata to the accumulated exploration expenditure.

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 will not be renewed. The refusal notice was signed by the PNG Minister for Mining on September 1, 2016. The Company has 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 (see also note 16 (g)).

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars)

### 5. 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.

### 6. INVESTMENTS

The Company holds 3,827,646 shares of Coppermoly Ltd. ("COY"), initially valued at \$440,102. During the year ended December 31, 2012, as a result of the COY shares trading below cost for a prolonged period of time and the decline being significant, management assessed the investment in COY shares as impaired; accordingly, a full impairment loss of \$440,102 was recognized in net loss of which \$269,258 of the loss was transferred from accumulated other comprehensive loss to net loss at December 31, 2012. Changes in fair value, based on the market price on the Australian Stock Exchange, are recorded in other comprehensive income. The Company recorded an unrealized gain of \$72,725 as at December 31, 2013, an unrealized loss of \$38,276 as at December 31, 2014, an unrealized loss of \$11,483 as at December 31, 2015 and an unrealized gain of \$7,655 as at December 31, 2016.

See Related Party Transactions (note 7) for the Company's investment in VeroLube Inc.

	Investment in COY \$	Investment in VeroLube Inc. \$	Total \$
December 31, 2014	34,449	37,500	71,949
Investment	-	8,380	8,380
Unrealized loss	(11,483)	-	(11,483)
Impairment	-	(45,880)	(45,880)
December 31, 2015	22,966	-	22,966
Unrealized gain	7,655	-	7,655
December 31, 2016	30,621	-	30,621

### 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 Financial Officer and the Directors. For the year ended December 31, 2016 and 2015, salaries to Key Management amounted to \$762,905 and \$697,875, respectively. During the year ended December 31, 2016, severance in the amount of \$57,000 (2015 - \$nil) was paid to the Company's former President.

For the year ended December 31, 2016, salaries to Key Management included fees of \$10,000 (2015 - \$nil) that were paid to a company that is controlled by the Company's current President. For the year ended December 31, 2016, professional fees included \$60,000 (2015 - \$nil) that was paid to a company that is controlled by a director.

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 Inc. and its subsidiary, VeroLube Bowden Plant Inc. (collectively, "VeroLube") to loan \$140,000 to VeroLube Bowden Plant Inc. The Company's Chief Executive Officer and director is also a director of VeroLube Inc. The Company advanced the \$140,000 on July 9,

## PNG Gold Corporation

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For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

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### 7. RELATED PARTY TRANSACTIONS (continued)

2014 to assist with plant and property lease payments. The loan bore interest at 5% per annum, was unsecured and matured on September 1, 2014. As at September 30, 2014, VeroLube had not repaid the loan plus accrued interest of \$1,611 and was in default in accordance with the terms of the loan agreement. The Company performed an impairment analysis of this outstanding loan and determined that the full amount outstanding including accrued interest was impaired. As a result, the Company recognized an impairment loss for the outstanding amount in the statements of loss and comprehensive loss for the year ended December 31, 2014. The impairment was subsequently reversed as a result of the \$500,000 secured loan agreement entered into on November 28, 2014.

On November 28, 2014, The Company and VeroLube entered into a new loan agreement for \$500,000 ("VeroLube Loan") that includes the previous \$140,000 loaned. Under the terms of the agreement, the VeroLube Loan shall be repayable on that day which falls 10 calendar days after the date of receipt by VeroLube of written demand made by the Company. The Company shall not make demand for the repayment of the VeroLube Loan before March 30, 2015 ("Maturity Date"). At any time and at the option of the Company, all or any part of the VeroLube Loan may be converted, in whole or in part, into common shares in the capital of VeroLube at a rate equal to the conversion price of \$0.40 per share (the "Conversion Feature"). Interest will accrue at the rate of 20% per annum, calculated daily and compounded monthly and shall be payable by VeroLube to the Company on the Maturity Date. The VeroLube Loan is secured by a charge against all present and after-acquired assets of VeroLube, including the patents related to the ReGen™ technology (the "Patents"). In addition, VeroLube has given the following additional consideration for the VeroLube Loan:

- (a) issued to the Company 250,000 common shares of VeroLube ("Investment in Verolube Inc.");
- (b) granted to the Company a royalty-free, non-exclusive, perpetual license to use VeroLube's patented ReGen™ process in Canada, Mexico and Central and South America; and
- (c) granted to the Company security interest against all of VeroLube's present and after-acquired personal property.

For accounting purposes, the Company estimated the fair value of each of the instruments in the VeroLube Loan. The fair value of the loan receivable upon initial recognition was determined to be \$462,500, which considered the length to maturity of the loan, the collateral available to the Company and the risk of repayment default.

The loan was accreted using the effective annual interest rate of 46% such that the carrying amount equaled the principal amount of \$500,000 as at March 31, 2015.

The fair value of the Investment in Verolube Inc. was estimated to be \$37,500 based on \$0.15 per share, which was adjusted to take into account changes in market conditions that affected a composite of comparable publically traded companies. The estimated fair value of the Conversion Feature was a nominal amount based on the Black-Scholes valuation model and therefore, no value was allocated to the Conversion Feature. No value was allocated to the perpetual license for the non-exclusive use of the ReGen™ technology because the technology has never been in commercial production and therefore, it was not possible to reliably estimate the future cash flows.

Under the terms of the term sheet, the Company agreed to lend VeroLube an additional \$250,000 to maintain its business, and that upon written request, the Company will provide additional loans to VeroLube on terms satisfactory to the Company at its sole discretion. During the year ended December 31, 2015, \$112,613 of the

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

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### 7. RELATED PARTY TRANSACTIONS (continued)

additional \$250,000 was loaned to Verolube. Verolube has agreed to issue 55,875 common shares to the Company as additional consideration for the loans.

On July 20, 2015, the Company announced that the date to complete the Business Combination had passed without conclusion of a transaction due to a number of significant developments related to Verolube that have hampered the due diligence process necessary to finalizing the transaction. The Company agreed not to call its outstanding loan plus accrued interest to Verolube. In return, Verolube agreed to give the Company the non-exclusive rights to its patented and certified ReGen™ used oil re-refining process for the US market. The Company then had the non-exclusive rights to Verolube's technology for North America, Central America and South America.

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 January 1, 2014	-
Fair value of funds advanced	462,500
Accretion	9,329
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	-

On March 28, 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 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 would be free to exercise its rights and remedies under the loan documents as it saw fit. Verolube did not fulfill these conditions. The Forbearance Agreement provided that if Verolube did fulfill those conditions, it will have repaid 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. While it is the assignee of the Patents, the Company will be responsible for paying all reasonable expenses associated with the maintenance of the Patents, and for retaining a lawyer to review the Patents for matters such as validity and jurisdiction, and such expenses shall be added to the amount of the indebtedness. 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 the 305,875 common shares of Verolube is nil and consequently, the Company has not assigned any value to the common shares of Verolube.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars)

### 7. RELATED PARTY TRANSACTIONS (continued)

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 assignment of the patents, both as provided for in the Forbearance Agreement. All other terms and conditions of the Forbearance Agreement will remain in full force and effect. On January 16, 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 is proceeding to enforce its security over the VeroLube patents and personal property.

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 (see note 4). 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 December 31, 2016 is \$268,128 (2015 - \$120,000) of accrued directors' fees, \$50,400 (2015 - \$nil) of accrued salaries payable to the current President and \$4,000 (2015 - \$nil) of accrued expense allowance payable to the Chief Executive Officer.

In connection with the closing of the first tranche of the Offering (see note 8), 500,000 units and 50,000 units were issued to a director and the spouse of the current President, respectively.

### 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, 2014 and 2015	131,168,368	63,540,233
Share consolidation	(104,934,711)	-
Private placement	5,550,000	555,000
Share issuance costs	-	(53,268)
December 31, 2016	31,783,657	64,041,965

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 basic and diluted loss per share presented in its consolidated statements of loss and comprehensive loss for the year ended December 31, 2016 and 2015, has been computed based on the post consolidated weighted average number of common shares outstanding.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

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### 8. SHARE CAPITAL (continued)

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 (the "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 ("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 securities issued under the Offering are subject to a four month hold period expiring on April 13, 2017.

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

For the year ended December 31, 2016 and 2015, there were no share-based payments recognized.

A summary of the status of the Company's stock options as at December 31, 2016 and changes during the year are as follows:

	Number of options	Weighted average exercise price \$
Outstanding and fully vested – December 31, 2014	8,500,000	0.41
Options expired	(1,250,000)	0.35
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

The Company has the following stock options outstanding and exercisable:

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

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

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(Expressed in Canadian dollars)

### 8. SHARE CAPITAL (continued)

Options Outstanding			Options Exercisable	
Number of options at December 31, 2015	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price \$	Number of options at December 31, 2015	Weighted Average Exercise Price \$
1,450,000	1.06	2.10	1,450,000	2.10

#### (d) Warrants

As at December 31, 2016, there were 2,775,000 warrants outstanding. Each warrant entitles 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. 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.

#### (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.

### 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

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

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### 9. IMPAIRMENT LOSS (continued)

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	
	2016	2015
	\$	\$
VeroLube loan (note 7)	164,375	747,006
Investment in VeroLube (note 7)	-	45,880
Accounts receivable from VeroLube	-	13,533
Computer, equipment and furniture (note 4)	-	34,132
Drilling equipment (note 4)	95,881	595,097
Mineral interest (note 5)	216,819	-
Total impairment loss	477,075	1,435,648

### 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### *Fair Value of Financial Instruments*

The Company's financial instruments at December 31, 2016 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.

#### *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.

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

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**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

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 \$
<b>December 31, 2016:</b>			
Cash and cash equivalents	442,663	-	-
Investment in Coppermoly Ltd. (note 6)	30,621	-	-
<b>December 31, 2015:</b>			
Cash and cash equivalents	832,747	-	-
Investment in Coppermoly Ltd. (note 6)	22,966	-	-

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, 2016 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. At this time there are no currency hedges in place.

As at December 31, 2016, the Company is exposed to currency risk through the following assets and liabilities denominated in foreign currency:

	Foreign currency	Exchange rate	Canadian Dollar
Cash – Papua New Guinea Kina	2,623	0.4220	1,107
Cash – Australian Dollar	956	0.9681	925
Accounts payable – Papua New Guinea Kina	(194,282)	0.4220	(81,987)
Accrued tax provision – Papua New Guinea Kina	(1,494,864)	0.4220	(630,833)
Accounts payable – Australian Dollar	(10,000)	0.9681	(9,681)
Accounts payable – United States Dollar	(9,615)	1.3442	(12,924)
			(733,393)

A 10% change in the exchange rate of the Papua New Guinea Kina against the Canadian dollar would affect other comprehensive income (loss) by approximately \$71,200.

A 10% change in the exchange rate of the Australian dollar against the Canadian dollar would affect other comprehensive income (loss) by approximately \$900.

The Company's subsidiaries were sold on March 31, 2017 and therefore, the Company has no significant currency risk exposure after that date (see note 16(g)).

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

A 10% change in the exchange rate of the United States dollar against the Canadian dollar would affect other comprehensive income (loss) by approximately \$1,300.

**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 2016, the Company received \$2,126 of interest income from banks and accrued \$164,375 of interest income on the VeroLube Loan, which was impaired. A 1% change in interest rate would affect income (loss) before tax of approximately \$5,000.

**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, 2016, the Company had \$442,663 in cash and cash equivalents, \$1,632,857 in current liabilities and no long-term liabilities (see note 1 regarding going concern).

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 \$3,000 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 \$64,041,965 and no long-term debt as at December 31, 2016. 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.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

### 12. COMMITMENTS

The Company has rented an office in Calgary on a month to month basis for \$1,000 per month.

In December 2016, the Company entered into contracts related to the ReGen™ Process for engineering pre-FEED studies with a remaining commitment of \$215,639 to be incurred in 2017.

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,	
	2016	2015
	\$	\$
Operating activities		
Interest income received from banks	2,126	19,327

### 14. GEOGRAPHICAL AREA INFORMATION

	Canada	Papua New Guinea	Total
	\$	\$	\$
<b>December 31, 2016</b>			
Property and equipment	8,328	-	8,328
Total assets	586,535	1,150	587,685
<b>December 31, 2015</b>			
Property and equipment	8,328	523,974	532,302
Mineral interests	-	216,819	216,819
Total assets	909,462	776,731	1,686,193

	Year ended December 31,	
	2016	2015
	\$	\$
Net loss – Canada	1,475,504	2,270,287
Net loss – Barbados	15,160	15,255
Net loss – Papua New Guinea	662,311	1,074,582
Net loss - Australia	-	13,320
Total net loss	2,152,975	3,373,444

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

**15. INCOME TAX**

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

	Year ended December 31, 2016	Year ended December 31, 2015
Canadian statutory tax rate	26.00%	26.00%
Loss for the year before tax	\$(2,152,975)	\$(3,373,444)
Income tax recovery at statutory rates	(559,774)	(877,095)
Foreign tax differential	(23,316)	(42,853)
Non-deductible (taxable) items	28,886	114,784
Foreign exchange	-	(216,337)
Deferred tax assets not recognized - change	607,367	1,085,044
Adjustment in respect of prior years	(53,163)	(63,543)
<b>Income tax recovery (expense)</b>	<b>\$ -</b>	<b>\$ -</b>

(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, 2016	December 31, 2015
Non-capital losses	\$14,682,514	\$ 13,542,979
Property and equipment	4,130,438	4,210,439
Exploration and evaluation assets	28,933,559	30,889,693
Share issuance costs	42,615	-
Available-for-sale investments	3,483,127	3,490,782
Intercompany loans and revaluation	38,438,062	35,889,091
Cumulative eligible capital	261,465	261,465
Charitable donation	3,800	3,800
Loan receivable	924,914	760,539
Reserves	341,776	185,584
	<b>\$91,242,270</b>	<b>\$ 89,234,372</b>

In addition, the Company has not recognized any deferred tax liabilities resulting from temporary differences in other comprehensive income as the Company views that those taxable temporary differences will not reverse in the foreseeable future.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Canadian dollars)

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### 15. INCOME TAX (continued)

- (c) The Company has approximately \$2,774,000 of unclaimed resource expenses for Canadian income tax purposes which can be carried forward indefinitely and used to reduce taxable income in Canada. The Company has also approximately \$29,917,000 unclaimed allowable exploration expenditures ("AEE") for Papua New Guinea tax purposes which may be used to reduce taxable income in Papua New Guinea within 20 years since incurred.

As at December 31, 2016, the Company has the following net operating losses, expiring in various years to 2036 and available to offset future taxable income in Canada, Barbados, Papua New Guinea and Australia.

2019	\$	19,000
2020		26,000
2021		50,000
2022		29,000
2023		9,000
2024		15,000
2026		60,000
2027		52,000
2028		318,000
2029		75,000
2030		375,000
2031		2,865,000
2032		2,637,000
2033		2,753,000
2034		2,202,000
2035		1,846,000
2036		1,130,000
Indefinitely		221,000
	\$	<u>14,682,000</u>

### 16. SUBSEQUENT EVENTS

- (a) 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 licence agreement, and delivery to the Company of such documents as it may require to effect assignment of the patents, both as provided for in the Forbearance Agreement. All other terms and conditions of the Forbearance Agreement will remain in full force and effect. On January 16, 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 is proceeding to enforce its security over the VeroLube patents and personal property.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

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### **16. SUBSEQUENT EVENTS (continued)**

- (b) On February 8, 2017, the Company granted of an aggregate of 3,075,000 stock options to employees, consultants and directors at an exercise price of \$0.17, expiring on the date that is 2 years from the date of the grant. These stock options fully vested on the date of grant. All stock options will be subject to a four-month hold period in accordance with the policies of the TSX Venture Exchange.
- (c) On February 9, 2017, the Company closed the final tranche of the Offering. Under the final tranche of the Offering, the Company closed upon 6,450,000 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 with each whole Warrant entitling the holder to acquire one common share at a price of \$0.30 per share for a period of two years. 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 total under the Offering, the Company issued 12,000,000 Units for aggregate gross proceeds of \$1,200,000. Certain finder's received a cash fee of up to 8% of the proceeds Offering. All securities issued under the Offering are subject to a four month hold period from the date of issuance.
- (d) 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 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.
- (e) On March 7, 2017, the Company entered into a 37 month lease agreement for its new corporate head office that has a total commitment of \$304,996.
- (f) 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. All securities issued under the private placement are subject to a four month hold period from the date of issuance. Certain finders received a cash fee equal to 8% of the proceeds of the private placement.
- (g) On March 31, 2017, the Company sold its wholly owned subsidiary, NMC Mining Corp, to 0804077 BC Ltd. for gross proceeds of one dollar plus future recoveries that are contingent upon certain future events occurring. NMC Mining Corp indirectly holds the Company's assets in Papua New.
- (h) 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.
- (i) On April 1, 2017, the Company granted of an aggregate of 300,000 stock options to an officer at an exercise price of \$0.46, expiring on the date that is 2 years from the date of the grant. These stock options will vest over a period of six months from the date of grant.
- (j) On April 17, 2017, the Company submitted a change of business application to the TSX Venture Exchange to become an industrial oil listed company, along with filing for a change of name to Gen III Oil Corp.

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the years ended December 31, 2016 and 2015**

(Expressed in Canadian dollars)

**16. SUBSEQUENT EVENTS (continued)**

- (k) On April 19, 2017, the Company settled \$345,576 in debt ("Debt") in exchange for 2,032,797 common shares (the "Shares") at a deemed price of \$0.17 per Share as follows:

<u>Creditor</u>	<u>Debt Amount</u>	<u>Number of Shares</u>	<u>Nature of Debt</u>
John Detmold, director	\$150,000	882,353	60 months of directors' fees at \$2,500 per month
Larry Van Hatten, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Larry Van Hatten, director	\$8,747	51,453	10.5 months of fees as audit committee chair at \$833 per month
Paul DiPasquale, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Brian Nethery, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Greg Clarkes, director and officer	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Greg Clarkes, director and officer	\$4,379	25,759	10.5 months of fees as compensation committee chair at \$417 per month
George Davidson, officer	\$50,400	296,470	6 months unpaid compensation (inclusive of taxes)
<b>Total</b>	<b>\$318,526</b>	<b>1,873,679</b>	

The remaining 159,118 Shares was issued to an arm's length creditor to settle \$27,050 in Debt. All Shares issued is subject to a four-month hold period. The Shares for Debt transactions in the table above are each a related party transaction.

- (l) On April 24, 2017, 250,000 warrants, at an exercise price of \$0.30 per warrant, were exercised for gross proceeds of \$75,000.

**17. COMPARATIVE FIGURES**

Certain of the comparative balances have been reclassified to conform with the presentation in the current year.

**PNG Gold Corporation**

Consolidated Financial Statements  
For the Year Ended December 31, 2015  
(Expressed in Canadian dollars)

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**PNG Gold Corporation**  
Consolidated Financial Statements  
(Expressed in Canadian dollars)

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## Management's Report

The accompanying consolidated financial statements of PNG Gold 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 Clarke

Chief Executive Officer

(Signed) Rick Low

Chief Financial Officer

Vancouver, British Columbia, Canada

March 15, 2016

## Independent auditors' report

To the Shareholders of  
**PNG Gold Corporation**

We have audited the accompanying consolidated financial statements of **PNG Gold Corporation**, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive loss, changes in equity 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 **PNG Gold Corporation** as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



**Emphasis of matter**

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which indicates that **PNG Gold Corporation** incurred a net loss of \$3,373,444 during the year ended December 31, 2015 and, as of that date, the Company had an accumulated deficit of \$69,986,586. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt on **PNG Gold Corporation's** ability to continue as a going concern.

Vancouver, Canada  
March 15, 2016

*Ernst & Young LLP*

Chartered Professional Accountants



**PNG Gold Corporation**  
Consolidated Statements of Financial Position  
(Expressed in Canadian dollars)

	December 31, 2015	December 31, 2014
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	832,747	2,774,907
Accounts receivable	12,165	24,077
Prepaid expenses	69,194	61,036
Loan receivable (notes 7 and 9)	-	471,829
	914,106	3,331,849
<b>Property and equipment</b> (note 4)	532,302	1,359,321
<b>Mineral interests</b> (note 5)	216,819	211,792
<b>Investments</b> (note 6)	22,966	71,949
<b>Total assets</b>	<b>1,686,193</b>	<b>4,974,911</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	1,078,554	1,009,640
	1,078,554	1,009,640
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 8)	63,540,233	63,540,233
<b>Contributed surplus</b>	7,374,187	7,374,187
<b>Accumulated deficit</b>	(69,986,586)	(66,613,142)
<b>Accumulated other comprehensive income (loss)</b>		
Cumulative translation adjustments	(343,161)	(370,456)
Unrealized gain on available-for-sale investments	22,966	34,449
Total shareholders' equity	607,639	3,965,271
<b>Total liabilities and shareholders' equity</b>	<b>1,686,193</b>	<b>4,974,911</b>

Nature of operations and going concern (note 1)  
Commitments (notes 5, 7 and 12)  
Subsequent events (notes 1, 7 and 16)

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 consolidated financial statements

**PNG Gold Corporation**  
Consolidated Statements of Comprehensive Loss  
For the years ended December 31, 2015 and 2014  
(Expressed in Canadian dollars)

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Expense</b>		
Amortization (note 4)	9,901	22,055
Exploration (note 5)	463,672	580,309
General and administration	322,589	363,620
Investor relations	11,856	16,918
Professional fees	293,000	257,381
Salaries and benefits (note 7)	966,220	1,167,815
Share-based payments (note 8)	-	67,525
Travel and accommodation	63,750	67,696
	<b>2,130,988</b>	<b>2,543,319</b>
<b>Other (income) expense</b>		
Interest income (note 7)	(192,503)	(63,312)
Foreign exchange (gain) loss	(689)	683
Gain on disposal of property and equipment	-	(24,201)
Impairment loss (notes 4, 7 and 9)	1,435,648	-
	<b>1,242,456</b>	<b>(86,830)</b>
<b>Net loss for the year</b>	<b>3,373,444</b>	<b>2,456,489</b>
<b>Other comprehensive (income) loss</b>		
Other comprehensive (income) loss to be reclassified to profit or loss in subsequent periods:		
Unrealized loss on available-for-sale investments	11,483	172,556
Exchange difference on translating foreign operations	(27,295)	(48,252)
	<b>(15,812)</b>	<b>124,304</b>
<b>Total comprehensive loss for the year</b>	<b>3,357,632</b>	<b>2,580,793</b>
<b>Loss per share – basic and diluted</b>	<b>0.03</b>	<b>0.02</b>
<b>Weighted average number of shares outstanding - basic and diluted</b>	<b>131,168,368</b>	<b>131,168,368</b>

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

**PNG Gold Corporation**

Consolidated Statements of Changes in Equity  
For the years ended December 31, 2015 and 2014  
(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	
	\$	\$	\$	\$	\$	\$
<b>Balance as at December 31, 2013</b>	63,540,233	7,298,177	(64,156,653)	(418,708)	207,005	6,470,054
Share-based payments	-	76,010	-	-	-	76,010
Loss for the year	-	-	(2,456,489)	-	-	(2,456,489)
Other comprehensive income (loss)	-	-	-	48,252	(172,556)	(124,304)
<b>Balance as at December 31, 2014</b>	63,540,233	7,374,187	(66,613,142)	(370,456)	34,449	3,965,271
Loss for the year	-	-	(3,373,444)	-	-	(3,373,444)
Other comprehensive income (loss)	-	-	-	27,295	(11,483)	15,812
<b>Balance as at December 31, 2015</b>	63,540,233	7,374,187	(69,986,586)	(343,161)	22,966	607,639

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

**PNG Gold Corporation**  
Consolidated Statements of Cash Flows  
For the years ended December 31, 2015 and 2014  
(Expressed in Canadian dollars)

	2015	2014
	\$	\$
<b>Operating activities</b>		
Net loss for the year	(3,373,444)	(2,456,489)
Adjustments for items not involving cash		
Amortization (note 4)	229,136	173,147
Share-based payments (note 8)	-	76,010
Accrued interest income	(173,748)	(15,038)
Gain on disposal of property and equipment	-	(24,201)
Impairment loss (note 9)	1,435,648	-
Effect of foreign exchange on cash	(9,078)	-
	(1,891,486)	(2,246,571)
Net change in non-cash working capital		
Accounts receivable	1,183	43,660
Prepaid expenses	(8,158)	91,619
Accounts payable and accrued liabilities	68,914	37,717
Net cash flows used in operating activities	(1,829,547)	(2,073,575)
<b>Financing activities</b>		
Loan receivable (note 7)	(112,613)	(500,000)
Net cash flows used in financing activities	(112,613)	(500,000)
<b>Investing activities</b>		
Disposal of property and equipment	-	351,305
Net cash flows from investing activities	-	351,305
Decrease in cash and cash equivalents during the year	(1,942,160)	(2,222,270)
Cash and cash equivalents, beginning of the year	2,774,907	4,997,177
<b>Cash and cash equivalents, end of the year</b>	<b>832,747</b>	<b>2,774,907</b>

Supplemental cash flow information (note 13)

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

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

PNG Gold Corporation (the "Company" or "PNG Gold") is incorporated under the laws of British Columbia. The Company's principal business activities are related to its 100% interest in the Normanby exploration license and the Sehulea exploration license, on Normanby Island, eastern Papua New Guinea.

On February 4, 2015, the Company and VeroLube Inc. ("VeroLube") entered into a binding term sheet (the "Term Sheet") providing for the acquisition by the Company of VeroLube, a private company incorporated under the federal laws of Canada (the "Business Combination"). VeroLube is the owner of the patented ReGen™ re-refining process for the refining of used motor oil. In connection with the Business Combination, it was proposed that the Company would consolidate its 131,168,368 issued and outstanding shares on the basis of one new share for ten old, and would then acquire all of the 51,500,301 issued and outstanding common shares of VeroLube in exchange for common shares of the Company on a 1:1 basis by way of a plan of arrangement or other similar transaction. In addition, all warrants of VeroLube would be exchanged for equivalent securities of the Company. If the Business Combination was completed, it was intended that the Company post-completion (the "Resulting Issuer") would change its name to VeroLube Inc. Upon completion, the Resulting Issuer would carry on VeroLube's present business. Closing was expected to take place on or before June 30, 2015 (the "Closing Date"). The Business Combination would constitute a "Reverse Takeover" within the meaning of TSX Venture Exchange (the "Exchange") Policy 5.2. On February 16, 2016, the Company announced that it will not be proceeding with the Business Combination. Trading in the Company's common shares on the Exchange has been halted, and will remain halted until the Exchange's requirements for resumption of trading have been met.

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, 2015, the Company had a working capital deficit of \$164,448, had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the year ended December 31, 2015, the Company reported a comprehensive loss of \$3,357,632 and as at December 31, 2015, had an accumulated deficit of \$69,986,586. The Company has not generated revenues from operations. The Company is dependent on equity financings to fund its operations. The Company expects to minimize operating and capital expenditures in 2016 and manage its cash balance by scaling its exploration and administrative operations as circumstances dictate, in order to remain in a financially flexible position. Management of the Company believes that the current level of funds is not sufficient to pay for expected cash expenditures over the next 12 months. The recoverability of the underlying value of exploration and evaluation assets is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete development, and future profitable production. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. The Company's consolidated financial statements for the year ended December 31, 2015 do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary should the going concern assumption be inappropriate, and such adjustments could be material.

The Company's head office is located at Suite 600 – 1090 West Pender Street, Vancouver, B.C., V6E 2N7, Canada.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

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### **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 for mineral interests, and depreciable property and equipment that have been measured at fair value less cost of disposal and investments that have been measured at fair market value.

These consolidated financial statements for the year ended December 31, 2015 were approved and authorized for issue by the Board of Directors on March 15, 2016.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### (a) Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, and its wholly owned subsidiaries (the “Group”): NMC Mining Corp, a corporation existing under the federal laws of Canada, 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 and Normanby Mining AUS Pty Limited (“Normanby AUS”), a corporation existing under the laws of Australia. Normanby AUS was dissolved on December 9, 2015 with no significant impact on the consolidated financial statements. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over investee. All significant inter-company transactions and balances have been eliminated upon consolidation.

#### (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.

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.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(Expressed in Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Foreign Currency Translation (continued)

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 is carried at cost, less accumulated depreciation and accumulated impairment losses. 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.

Depreciation is provided for at the following rates:

<b>Assets – Corporate head office</b>	<b>Rate</b>
Computer equipment	55% declining balance method
Furniture	20% declining balance method
<b>Assets – Normanby PNG</b>	<b>Rate</b>
Drilling equipment	7 years, straight-line method

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (d) Property and Equipment (continued)

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 statement of 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 that would have been determined had no prior impairment loss been recognized for the asset.

#### (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.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (f) Financial Instruments (continued)

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, loan receivable is classified as held-to-maturity 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 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

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (f) Financial Instruments (continued)

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, 2015, the Company has not incurred any legal or constructive obligations as a result of its exploration and evaluation activities.

#### (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.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (h) Income Taxes (continued)

##### (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.

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.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (h) Income Taxes (continued)

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 of the agreement to issue shares as determined by the Board of Directors.

#### (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 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.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(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 income (loss). Amounts related to the cost of issuing shares are recorded as a reduction of share capital. The fair value of equity instruments issued for exploration and evaluation assets are charged to exploration expense.

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 interest 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.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### (l) Segmented Reporting

The Company operates in four geographical areas. The parent's head office is located in Canada and its exploration and evaluation activities are located in Papua New Guinea. In addition, the Company has subsidiaries in Barbados and a subsidiary in Australia that was dissolved on December 9, 2015.

#### (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.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(Expressed in Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Significant Accounting Estimates and Judgments (continued)

##### 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 following:

- i. The carrying value and the recoverability of property and equipment and exploration and evaluation assets

The application of the Company's accounting policy for identifying impairment indicators under IFRS requires judgment. If indicators are identified, the determination of recoverable amount of property and equipment and capitalized exploration and evaluation assets requires judgment in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

- ii. The carrying value of loan receivable

The fair value of the loan receivable is based on the length to maturity of the loan, the collateral available to the Company, the risk of repayment default and other consideration exchanged. Changes in assumptions, valuation of other consideration exchanged or new information becoming available, can materially affect the fair value of the loan receivable. The fair value of other consideration exchanged is based on a combination of the Black-Scholes valuation model and comparisons to a composite of comparable publically traded companies. The Black-Scholes valuation model incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimates.

VeroLube granted to the Company a royalty-free, non-exclusive, perpetual license to use VeroLube's patented ReGen™ process in North America, Central America and South America. No value was allocated to the perpetual license for the non-exclusive use of the ReGen™ technology because the technology has never been in commercial production and therefore, it was not possible to reliably estimate the future cash flows.

## **PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

(n) Significant Accounting Estimates and Judgments (continued)

Critical accounting judgments

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

- i. The analysis of the functional currency for each entity of the Group - In accordance with IAS 21, the Effects of Changes in Foreign Exchange Rates, management determined that the functional currency of Normanby PNG is the Papua New Guinea Kina and for all other entities within the Group, the functional currency is the Canadian dollar, as these are the currencies of the primary economic environment in which the companies operate.
- ii. 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 Company is currently evaluating the following standards issued but not yet in effect and has not yet determined the impact on its financial position and results of operations:

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.

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.

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

**4. PROPERTY AND EQUIPMENT**

	<b>Computer and Equipment</b>	<b>Furniture</b>	<b>Land</b>	<b>Drilling Equipment</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance as at December 31, 2013	38,741	142,104	8,328	1,478,478	1,667,651
Additions	-	-	-	65,000	65,000
Foreign exchange movement	-	-	-	87,039	87,039
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
<b>Accumulated amortization</b>					
Balance as at December 31, 2013	27,313	87,444	-	157,830	272,587
Amortization	4,435	17,620	-	151,092	173,147
Foreign exchange movement	-	-	-	14,635	14,635
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
<b>Carrying amounts</b>					
Balance as at December 31, 2014	6,993	37,040	8,328	1,306,960	1,359,321
Balance as at December 31, 2015	-	-	8,328	523,974	532,302

	<b>Year ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
	\$	\$
<b>Allocation of amortization</b>		
Amortization	9,901	22,055
Exploration	219,235	151,092
Total amortization	229,136	173,147

All of the Company's drill rigs have been idle since the end of July, 2013, after drilling was completed at the Sehulea exploration license area (EL 1069) on Weioko and Lantaona Hill prospects.

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

**5. MINERAL INTERESTS**

Mineral interests at December 31, 2015 comprise \$199,976 for the Normanby mineral interest including \$4,776 of foreign exchange increase and \$16,843 for the Sehulea mineral interest including \$251 of foreign exchange increase. The foreign currency translation is a non-cash item that reflects the movement of the PNG Kina as it relates to the Canadian dollar.

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	44,738	16,541	61,279
Consulting	33,222	20,947	54,169
Equipment	110,598	109,818	220,416
Field supplies	1,409	851	2,260
Legal	11,938	11,938	23,876
Transportation	9,273	3,720	12,993
Travel	13,312	8,676	21,988
Wages	52,165	14,526	66,691
Year ended December 31, 2015	276,655	187,017	463,672
Cumulative to December 31, 2014	25,052,975	2,210,325	27,263,300
Cumulative to December 31, 2015	25,329,630	2,397,342	27,726,972

	Papua New Guinea		
	Normanby	Sehulea	Total
	\$	\$	\$
Exploration expense:			
Administration	133,500	60,270	193,770
Camp costs	1,375	38	1,413
Community relations	342	-	342
Consulting	37,614	27,111	64,725
Equipment	79,874	75,273	155,147
Legal	7,449	7,100	14,549
Share-based payments	6,362	2,123	8,485
Transportation	1,044	5,132	6,176
Travel	7,683	2,747	10,430
Wages	100,968	24,304	125,272
Year ended December 31, 2014	376,211	204,098	580,309
Cumulative to December 31, 2013	24,676,764	2,006,227	26,682,991
Cumulative to December 31, 2014	25,052,975	2,210,325	27,263,300

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(Expressed in Canadian dollars)

### 5. MINERAL INTERESTS (continued)

Under Papua New Guinea (“PNG”) mining laws, the PNG government has the right to elect at any time prior to commencement of mining, to make a single purchase of up to 30% equity interest in any mineral discovery arising from the Company’s exploration licenses, at a price prorata to the accumulated exploration expenditure.

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 \$136,000. The Company is awaiting the results of its Sehulea exploration license renewal application. The two year term of the Normanby exploration license will be expiring 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 \$195,000.

### 6. INVESTMENTS

The Company holds 26,855,994 shares of New Guinea Gold Corp. (“NGG”), initially valued at \$3,027,664. During the year ended December 31, 2012, as a result of the NGG shares trading below cost for a prolonged period of time and the decline being significant, management assessed the investment in NGG shares as impaired; accordingly an impairment loss of \$1,342,800 was recognized, reducing the value to \$nil. Based on the December 31, 2013 market price on the TSX Venture Exchange, the Company recorded an unrealized gain of \$134,280 in other comprehensive income as a result of the change in fair value. On May 9, 2014, NGG was issued a cease trade order and it has not traded on the TSX Venture exchange since then. Given the prolonged downturn of the junior mineral exploration market and NGG’s current market position, management assessed the investment in NGG shares as permanently impaired. As at December 31, 2014, the unrealized gain of \$134,280 in other comprehensive income was reversed.

The Company holds 3,827,646 shares of Coppermoly Ltd. (“COY”), initially valued at \$440,102. During the year ended December 31, 2012, as a result of the COY shares trading below cost for a prolonged period of time and the decline being significant, management assessed the investment in COY shares as impaired; accordingly a full impairment loss of \$440,102 was recognized in net loss of which \$269,258 of the loss was transferred from accumulated other comprehensive loss to net loss at December 31, 2012. Changes in fair value, based on the market price on the Australian Stock Exchange, are recorded in other comprehensive income. The Company recorded an unrealized gain of \$72,725 as at December 31, 2013, an unrealized loss of \$38,276 as at December 31, 2014 and an unrealized loss of \$11,483 as at December 31, 2015.

See Related Party Transactions (note 7) for the Company’s investment in VeroLube Inc.

	Investment in NGG \$	Investment in COY \$	Investment in VeroLube Inc. \$	Total \$
December 31, 2013	134,280	72,725	-	207,005
Investment	-	-	37,500	37,500
Unrealized loss	(134,280)	(38,276)	-	(172,556)
December 31, 2014	-	34,449	37,500	71,949
Investment	-	-	8,380	8,380
Unrealized loss	-	(11,483)	-	(11,483)
Impairment	-	-	(45,880)	(45,880)
December 31, 2015	-	22,966	-	22,966

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(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 Financial Officer and the Directors.

In addition to the related party transactions noted below, 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.

	Year ended December 31,	
	2015	2014
<b>Transactions with Key Management Personnel</b>	<b>\$</b>	<b>\$</b>
Salaries to Key Management	697,875	971,378
Share-based payments to Key Management	-	71,687
	697,875	1,043,065

For the year ended December 31, 2015, salaries to Key Management included fees of \$nil (2014 - \$153,580) that were paid to a company that was controlled by the Company's former Chief Operating Officer.

On July 7, 2014, the Company entered into an agreement with VeroLube Inc. and its subsidiary, VeroLube Bowden Plant Inc. (collectively, "VeroLube") to loan \$140,000 to VeroLube Bowden Plant Inc. The Company's Chief Executive Officer and director is also a director of VeroLube Inc. The Company advanced the \$140,000 on July 9, 2014 to assist with plant and property lease payments. The loan bore interest at 5% per annum, was unsecured and matured on September 1, 2014. As at September 30, 2014, VeroLube had not repaid the loan plus accrued interest of \$1,611 and was in default in accordance with the terms of the loan agreement. The Company performed an impairment analysis of this outstanding loan and determined that the full amount outstanding including accrued interest was impaired. As a result, the Company recognized an impairment loss for the outstanding amount in the statement of comprehensive loss for the nine months ended September 30, 2014. The impairment was subsequently reversed as a result of the \$500,000 secured loan agreement entered into on November 28, 2014.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(Expressed in Canadian dollars)

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### 7. RELATED PARTY TRANSACTIONS (continued)

On November 28, 2014, The Company and VeroLube entered into a new loan agreement for \$500,000 ("VeroLube Loan") that includes the previous \$140,000 loaned. Under the terms of agreement, the VeroLube Loan shall be repayable on that day which falls 10 calendar days after the date of receipt by VeroLube of written demand made by the Company. The Company shall not make demand for the repayment of the VeroLube Loan before March 30, 2015 ("Maturity Date"). To-date, the Company has not made any demands for repayment. At any time and at the option of the Company, all or any part of the VeroLube Loan may be converted, in whole or in part, into common shares in the capital of VeroLube at a rate equal to the conversion price of \$0.40 per share (the "Conversion Feature"). Interest will accrue at the rate of 20% per annum, calculated daily and compounded monthly and shall be payable by VeroLube to the Company on the Maturity Date. In addition, VeroLube has given the following additional consideration for the VeroLube Loan:

- (a) issued to the Company 250,000 common shares of VeroLube ("Investment in VeroLube");
- (b) granted to the Company a royalty-free, non-exclusive, perpetual license to use VeroLube's patented ReGen™ process in Canada, Mexico and Central and South America; and
- (c) granted to the Company security interest against all of VeroLube's present and after-acquired personal property.

For accounting purposes, the Company estimated the fair value of each of the instruments in the VeroLube Loan. The fair value of the loan receivable upon initial recognition was determined to be \$462,500, which considered the length to maturity of the loan, the collateral available to the Company and the risk of repayment default. The loan was accreted using the effective annual interest rate of 46% such that the carrying amount equaled the principal amount of \$500,000 as at March 31, 2015. The amortized cost of the loan was \$471,829 as at December 31, 2014.

The fair value of the Investment in VeroLube was estimated to be \$37,500 based on \$0.15 per share, which was adjusted to take into account changes in market conditions that affected a composite of comparable publically traded companies. The estimated fair value of the Conversion Feature was a nominal amount based on the Black-Scholes valuation model and therefore, no value was allocated to the Conversion Feature. No value was allocated to the perpetual license for the non-exclusive use of the ReGen™ technology because the technology has never been in commercial production and therefore, it was not possible to reliably estimate the future cash flows.

Under the terms of the Term Sheet, the Company agreed to lend VeroLube an additional \$250,000 to maintain its business, and that upon written request, the Company will provide additional loans to VeroLube on terms satisfactory to the Company at its sole discretion. During the year ended December 31, 2015, \$112,613 of the additional \$250,000 was loaned to VeroLube. VeroLube has agreed to issue 55,875 common shares to the Company as additional consideration for the loans.

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.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(Expressed in Canadian dollars)

### 7. RELATED PARTY TRANSACTIONS (continued)

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

	\$
Balance as at January 1, 2014	-
Fair value of funds advanced	462,500
Accretion	9,329
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	-

On April 7, 2015, the Company and VeroLube signed a patent licence agreement ("Patent Licence") granting the Company a non-exclusive, perpetual license to use the ReGen™ process in Canada, Mexico and Central and South America. The Patent Licence requires the Company to make royalty payments that were previously agreed upon by VeroLube and the original patent owner. Under the Patent Licence, the Company is required to pay VeroLube a royalty equal to 2% of gross revenues (net of returns and allowances) generated from the sale of licenced products from plants in Canada until October 29, 2017. The royalty rate is increased to 3% after October 29, 2017. The royalty rate is 1% for gross revenues (net of returns and allowances) generated from the sale of licenced products from plants outside Canada. The Company has not built any plants yet and does not have any revenues from the Patent Licence.

On July 20, 2015, the Company announced that the Closing Date had passed without conclusion of a transaction due to a number of significant developments related to VeroLube that have hampered the due diligence process necessary to finalizing the transaction. The Company has agreed not to call its outstanding loan plus accrued interest to VeroLube. In return, VeroLube has agreed to give the Company the non-exclusive rights to its patented and certified ReGen™ used oil re-refining process for the US market. The Company now has the non-exclusive rights to VeroLube's technology for North America, Central America and South America. Further, on February 16, 2016, the Company announced that it would not be proceeding with the Business Combination with VeroLube.

### 8. SHARE CAPITAL

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

(b) Issued and outstanding:

As at December 31, 2015 and December 31, 2014, 131,168,368 commons shares were issued and outstanding.

(c) Stock Options and Share-Based Payments

For the year ended December 31, 2015, there were no share-based payments recognized. For the year ended December 31, 2014, the Company recognized share-based payments of \$67,525 in comprehensive loss and \$8,485 in exploration expense.

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

**8. SHARE CAPITAL (continued)**

A summary of the status of the Company's stock options as at December 31, 2015 and changes during the period are as follows:

	Number of options	Weighted average exercise price \$
Outstanding – December 31, 2013	9,250,000	0.41
Options expired	(750,000)	0.35
Outstanding and fully vested – December 31, 2014	8,500,000	0.41
Options expired	(1,250,000)	0.35
Outstanding and fully vested – December 31, 2015	7,250,000	0.42

The Company has the following stock options outstanding and exercisable:

Options Outstanding			Options Exercisable	
Number of options at December 31, 2015	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price \$	Number of options at December 31, 2015	Weighted Average Exercise Price \$
7,250,000	1.06	0.42	7,250,000	0.42

Options Outstanding			Options Exercisable	
Number of options at December 31, 2014	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price \$	Number of options at December 31, 2014	Weighted Average Exercise Price \$
8,500,000	2.15	0.41	8,500,000	0.41

**(d) 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.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(Expressed in Canadian dollars)

### 8. SHARE CAPITAL (continued)

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.

### 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, 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 (there were no indicators of impairment as at December 31, 2014).

	Year ended December 31, 2015
	\$
Verolube loan (note 7)	747,006
Investment in Verolube (note 7)	45,880
Accounts receivable from Verolube	13,533
Computer, equipment and furniture (note 4)	34,132
Drilling equipment (note 4)	595,097
Total impairment loss	1,435,648

### 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### *Fair Value of Financial Instruments*

The Company's financial instruments at December 31, 2015 include cash and cash equivalents, accounts receivable, Verolube Loan, Investment in NGG, Investment in COY, Investment in Verolube Inc., 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 Coppermoly shares was based on the closing prices of those shares on Australian Stock Exchange.

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

**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 lowest 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 \$
<b>December 31, 2015:</b>			
Cash and cash equivalents	832,747	-	-
Investment in Coppermoly Ltd. (note 6)	22,966	-	-
<b>December 31, 2014:</b>			
Cash and cash equivalents	2,774,907	-	-
Loan receivable (note 7)	-	-	471,829
Investment in Coppermoly Ltd. (note 6)	34,449	-	-
Investment in VeroLube Inc. (notes 6 and 7)	-	-	37,500

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, 2015 is minimal.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(Expressed in Canadian dollars)

### 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

**Currency risk** – currency risk arises due to fluctuations in the exchange rates. The Company's equity financings are sourced in Canadian dollars, but the normal day-to-day exploration expenditures are incurred in Papua New Guinea Kinas and Australian dollars, which the Company purchases with Canadian dollars. At this time there are no currency hedges in place. A weakening of the Canadian dollar or a strengthening of the Kina and Australian dollar could have an adverse impact on the amount of foreign exchange gain/loss and comprehensive loss on revaluation.

As at December 31, 2015, the Company is exposed to currency risk through the following assets and liabilities denominated in foreign currency:

	Foreign currency	Exchange rate	Canadian dollar
Cash – Papua New Guinea Kina	29,860	0.4615	13,780
Cash – Australian Dollar	15,266	1.0124	15,455
Accounts payable – Papua New Guinea Kina	(1,399,044)	0.4615	(645,659)
			(616,424)

A 10% change in the exchange rate of the Papua New Guinea Kina against the Canadian dollar would affect other comprehensive income (loss) by approximately \$63,000.

A 10% change in the exchange rate of the Australian dollar against the Canadian dollar would affect other comprehensive income (loss) by approximately \$2,000.

**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 2015, the Company received \$19,327 of interest income from banks and accrued \$162,564 of interest income on the Verolube Loan. A 1% change in interest rate would affect income (loss) before tax of approximately \$8,000.

**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, 2015, the Company has \$832,747 in cash and cash equivalents, \$1,078,554 in current liabilities and no long-term liabilities (see note 1 regarding going concern).

The Company's current liabilities arose as a result of exploration and evaluation expenditures for its projects, other corporate expenses and accruals. Payment due dates for exploration and evaluation expenditures and 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 \$2,000 before tax. The ability of the Company to finance its exploration activities on its mineral interests and the future profitability of the Company are directly related to the market price of gold and silver. The Company monitors the commodity prices to determine the appropriate course of business action the Company should undertake.

## PNG Gold Corporation

Notes to the Consolidated Financial Statements

For the year ended December 31, 2015

(Expressed in Canadian dollars)

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### 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 \$63,540,233 and no long-term debt as at December 31, 2015 and 2014. 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

On February 4, 2015, the Company entered into a 14 month lease agreement for its new corporate head office that has a remaining commitment of \$43,303 in 2016.

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

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	Year ended December 31,	
	2015	2014
	\$	\$
Operating activities		
Interest income received from banks	19,327	45,444

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**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

**14. GEOGRAPHICAL AREA INFORMATION**

	Canada \$	Papua New Guinea \$	Australia \$	Total \$
<b>December 31, 2015</b>				
Property and equipment	8,328	523,974	-	532,302
Mineral interests	-	216,819	-	216,819
Total assets	909,462	776,731	-	1,686,193
<b>December 31, 2014</b>				
Property and equipment	52,361	1,306,960	-	1,359,321
Mineral interests	-	211,792	-	211,792
Total assets	3,403,749	1,569,750	1,412	4,974,911

	Year ended December 31,	
	2015 \$	2014 \$
Net loss – Canada	2,270,287	1,870,274
Net loss – Barbados	15,255	7,510
Net loss – Papua New Guinea	1,074,582	569,922
Net loss - Australia	13,320	8,783
Total net loss	3,373,444	2,456,489

**15. INCOME TAX**

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

	Year ended December 31, 2015	Year ended December 31, 2014
Canadian statutory tax rate	26.00%	26.00%
Loss for the year before tax	\$(3,373,444)	\$(2,456,489)
Income tax recovery at statutory rates	(877,095)	(638,687)
Foreign tax differential	(42,853)	(23,693)
Non-deductible (taxable) items	114,784	3,507
Foreign exchange	(216,337)	-
Deferred tax assets not recognized - change	1,085,044	822,222
Expiry of tax losses	-	12,060
Adjustment in respect of prior years	(63,543)	(175,409)
<b>Income tax recovery (expense)</b>	<b>\$ -</b>	<b>\$ -</b>

(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.

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**

(Expressed in Canadian dollars)

**15. INCOME TAX (continued)**

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

	December 31, 2015	December 31, 2014
Non-capital losses	\$ 13,542,979	\$ 11,713,790
Property and equipment	4,210,439	4,033,180
Exploration and evaluation assets	30,889,693	29,166,716
Share issuance costs	-	507,293
Available-for-sale investments	3,490,782	3,433,419
Intercompany loans and revaluation	35,889,091	36,545,804
Cumulative eligible capital	261,465	243,162
Charitable donation	3,800	3,800
Loan receivable	760,539	-
Reserves	185,584	-
	<u>\$ 89,234,372</u>	<u>\$ 85,647,164</u>

In addition, the Company has not recognized any deferred tax liabilities resulting from temporary differences in other comprehensive income as the Company views that those taxable temporary differences will not reverse in the foreseeable future.

- (c) The Company has approximately \$2,774,000 of unclaimed resource expenses for Canadian income tax purposes which can be carried forward indefinitely and used to reduce taxable income in Canada. The Company has also approximately \$32,694,000 unclaimed allowable exploration expenditures ("AEE") for Papua New Guinea tax purposes which may be used to reduce taxable income in Papua New Guinea within 20 years since incurred.

As at December 31, 2015, the Company has the following net operating losses, expiring in various years to 2035 and available to offset future taxable income in Canada, Barbados, Papua New Guinea and Australia.

2019	\$ 20,000
2020	27,000
2021	51,000
2022	30,000
2023	10,000
2024	15,000
2026	44,000
2027	52,000
2028	318,000
2029	75,000
2030	375,000
2031	2,865,000
2032	2,637,000
2033	2,753,000
2034	2,202,000
2035	1,844,000
Indefinitely	223,000
	<u>\$ 13,541,000</u>

**PNG Gold Corporation**

Notes to the Consolidated Financial Statements

**For the year ended December 31, 2015**(Expressed in Canadian dollars)

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**16. SUBSEQUENT EVENTS**

- (a) On February 16, 2016, the Company announced that it intends to consolidate its 131,168,368 issued and outstanding common shares on the basis of one new for ten old (the "Consolidation"). Upon completion of the Consolidation, 13,116,837 common shares will be issued and outstanding. The Consolidation is being undertaken in order to provide the Company with a more readily financeable capital structure. The Consolidation is subject to acceptance from the Exchange.
  
- (b) On February 16, 2016, the Company announced that it will not be proceeding with the VeroLube Business Combination.

**Gen III Oil Corporation (formerly PNG Gold Corporation)**

Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2017  
(Unaudited)  
(Expressed in Canadian dollars)

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**Gen III Oil Corporation (formerly PNG Gold Corporation)**

Condensed Consolidated Interim Financial Statements

(Unaudited)

(Expressed in Canadian dollars)

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**For the Three Months Ended March 31, 2017****Page**

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

	March 31, 2017	December 31, 2016
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	2,498,403	442,663
Accounts receivable	206,407	28,040
Prepaid expenses	70,773	78,033
	2,775,583	548,736
<b>Property and equipment</b> (note 3)	8,328	8,328
<b>Investments</b>	95,691	30,621
<b>Total assets</b>	<b>2,879,602</b>	<b>587,685</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 5)	826,655	760,024
Accrued tax provision	282,000	872,833
	1,108,655	1,632,857
<b>Shareholders' Equity (Deficit)</b>		
<b>Share capital</b> (note 6)	66,753,390	64,041,965
<b>Contributed surplus</b>	7,837,231	7,374,187
<b>Accumulated deficit</b>	(72,915,365)	(72,139,561)
<b>Accumulated other comprehensive income (loss)</b>		
Cumulative translation adjustments	-	(352,384)
Unrealized gain on available-for-sale investments	95,691	30,621
Total shareholders' equity (deficit)	1,770,947	(1,045,172)
<b>Total liabilities and shareholders' equity (deficit)</b>	<b>2,879,602</b>	<b>587,685</b>

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  
For the three months ended March 31, 2017 and 2016  
(Unaudited)  
(Expressed in Canadian dollars)

	<b>2017</b>	<b>2016</b>
	\$	\$
<b>Expense</b>		
Exploration (note 4)	24,007	113,400
General and administration	56,481	74,014
Investor relations	34,546	8,478
Professional fees	382,584	115,092
Salaries and benefits (note 5)	220,992	355,355
Share-based payments (note 6)	463,044	-
Travel and accommodation	15,130	1,042
	<b>1,196,784</b>	<b>667,381</b>
<b>Other (income) expense</b>		
Interest income (note 5)	(17,340)	(44,329)
Foreign exchange loss (gain)	328,715	(835)
Impairment loss (notes 3 and 5)	15,481	37,869
Gain on disposal of subsidiary (note 10)	(747,836)	-
	<b>(420,980)</b>	<b>(7,295)</b>
<b>Net loss for the period</b>	<b>775,804</b>	<b>660,086</b>
<b>Other comprehensive (income) loss</b>		
Other comprehensive (income) loss to be reclassified to profit or loss in subsequent periods:		
Unrealized (gain) loss on available-for-sale investments	(65,070)	7,656
Exchange difference on translating foreign operations	-	4,843
Reallocation of exchange difference on translating foreign operations	(352,384)	-
	<b>(417,454)</b>	<b>12,499</b>
<b>Total comprehensive loss for the period</b>	<b>358,350</b>	<b>672,585</b>
<b>Loss per share – basic and diluted</b>	<b>0.02</b>	<b>0.03</b>
<b>Weighted average number of shares outstanding - basic and diluted</b>	<b>31,813,797</b>	<b>26,233,657</b>

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 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	
	\$	\$	\$	\$	\$	\$
<b>Balance as at December 31, 2015</b>	63,540,233	7,374,187	(69,986,586)	(343,161)	22,966	607,639
Loss for the period	-	-	(660,086)	-	-	(660,086)
Other comprehensive income (loss)	-	-	-	(4,843)	(7,656)	(12,499)
<b>Balance as at March 31, 2016</b>	63,540,233	7,374,187	(70,646,672)	(348,004)	15,310	(64,946)
Issuance of share capital (note 6)	555,000	-	-	-	-	555,000
Share issuance costs (note 6)	(53,268)	-	-	-	-	(53,268)
Loss for the period	-	-	(1,492,889)	-	-	(1,492,889)
Other comprehensive income (loss)	-	-	-	(4,380)	15,311	10,931
<b>Balance as at December 31, 2016</b>	64,041,965	7,374,187	(72,139,561)	(352,384)	30,621	(1,045,172)
Issuance of share capital (note 6)	2,949,750	-	-	-	-	2,949,750
Share issuance costs (note 6)	(238,325)	-	-	-	-	(238,325)
Share-based payments (note 6)	-	463,044	-	-	-	463,044
Loss for the period	-	-	(775,804)	-	-	(775,804)
Other comprehensive income (loss)	-	-	-	352,384	65,070	417,454
<b>Balance as at March 31, 2017</b>	66,753,390	7,837,231	(72,915,365)	-	95,691	1,770,947

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 three months ended March 31, 2017 and 2016  
(Unaudited)  
(Expressed in Canadian dollars)

	2017	2016
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(775,804)	(660,086)
Adjustments for items not involving cash		
Amortization (note 3)	-	19,274
Share-based payments (note 6)	463,044	-
Accrued interest income	(16,849)	(38,184)
Foreign exchange loss	328,715	-
Impairment loss (note 5)	15,481	37,869
Gain on disposal of subsidiary (note 10)	(747,836)	-
Effect of foreign exchange on cash	23,669	54,709
	(709,580)	(586,418)
Net change in non-cash working capital		
Accounts receivable	(177,285)	(707)
Prepaid expenses	7,260	33,906
Accounts payable and accrued liabilities	177,986	44,889
Accrued tax provision	46,532	(23,698)
Net cash flows used in operating activities	(655,087)	(532,028)
<b>Financing activities</b>		
Issuance of share capital (note 6)	2,949,750	-
Share issuance costs (note 6)	(238,325)	-
Net cash flows from financing activities	2,711,425	-
<b>Investing activities</b>		
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	2,055,740	(532,028)
Cash and cash equivalents, beginning of the period	442,663	832,747
<b>Cash and cash equivalents, end of the period</b>	<b>2,498,403</b>	<b>300,719</b>

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 months ended March 31, 2017 and 2016**

**(Unaudited)**

(Expressed in Canadian dollars)

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### **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 owns the ReGen™ re-refining technology; and either has, or is in the process of, transferring ownership of the various ReGen™ patents to the Company.

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. On May 11, 2017, the Company changed its name to Gen III Oil Corporation.

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.

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 March 31, 2017, the Company had a working capital of \$1,666,928, had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the three months ended March 31, 2017, the Company reported a comprehensive loss of \$358,350 and as at March 31, 2017, had an accumulated deficit of \$72,915,365. 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 March 31, 2017.

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

## **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](http://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 months ended March 31, 2017 were approved and authorized for issue by the Board of Directors on May 24, 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”). 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.

**Gen III Oil Corporation (formerly PNG Gold Corporation)**  
Notes to the Condensed Consolidated Interim Financial Statements  
**For the three months ended March 31, 2017 and 2016**  
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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 \$
<b>Cost</b>					
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)	(191,010)
Foreign exchange movement	-	-	-	(99,069)	(70,563)
Balance as at December 31, 2016 and March 31, 2017	-	-	8,328	-	8,328
<b>Accumulated amortization</b>					
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)	(78,310)
Foreign exchange movement	-	-	-	(34,485)	(22,798)
Balance as at December 31, 2016 and March 31, 2017	-	-	-	-	-
<b>Carrying amounts</b>					
Balance as at December 31, 2016 and March 31, 2017	-	-	8,328	-	8,328

**Gen III Oil Corporation (formerly PNG Gold Corporation)**  
Notes to the Condensed Consolidated Interim Financial Statements  
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(Expressed in Canadian dollars)

**3. PROPERTY AND EQUIPMENT (continued)**

	Three months ended March 31,	
	2017	2016
<b>Allocation of amortization</b>	<b>\$</b>	<b>\$</b>
Amortization	-	-
Exploration	-	19,274
<b>Total amortization</b>	<b>-</b>	<b>19,274</b>

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**

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 months ended March 31, 2017 and 2016**  
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(Expressed in Canadian dollars)

**4. MINERAL INTERESTS (continued)**

	Papua New Guinea		
	Normanby \$	Sehulea \$	Total \$
Exploration expense:			
Administration	27,985	1,716	29,701
Assaying	18,011	8,612	26,623
Consulting	4,624	5,654	10,278
Equipment	10,360	10,299	20,659
Legal	2,276	2,276	4,552
Transportation	2,119	706	2,825
Travel	401	134	535
Wages	15,066	3,161	18,227
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 March 31, 2016	25,410,472	2,429,900	27,840,372

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 will not be renewed. The refusal notice was signed by the PNG Minister for Mining on September 1, 2016. The Company has 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.

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 Financial Officer and the Directors. For the three months ended March 31, 2017 and 2016, salaries to Key Management amounted to \$216,100 and \$259,860, respectively. During the three months ended March 31, 2016, severance in the amount of \$57,000 was paid to the Company’s former President.

For the three months ended March 31, 2017, salaries to Key Management included fees of \$32,500 (2016 - \$nil) that were paid to a company that is controlled by the Company’s current President. For the three months ended March 31, 2017, professional fees included \$45,000 (2016 - \$nil) that was paid to a company that is controlled by a director.

## Gen III Oil Corporation (formerly PNG Gold Corporation)

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and 2016

(Unaudited)

(Expressed in Canadian dollars)

### 5. RELATED PARTY TRANSACTIONS (continued)

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.

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.

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 March 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

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**5. RELATED PARTY TRANSACTIONS (continued)**

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.

The Company currently owns the ReGen™ re-refining technology; and either has, or is in the process of, transferring ownership of the various ReGen patents to the Company.

Included in accounts payable and accrued liabilities as at March 31, 2017 is \$309,376 (December 31, 2016 - \$268,128) of accrued directors' fees, \$50,400 (December 31, 2016 - \$50,400) of accrued salaries payable to the current President and \$4,000 (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
Share issuance costs	-	(238,325)
March 31, 2017	45,916,157	66,753,390

**Gen III Oil Corporation (formerly PNG Gold Corporation)**  
Notes to the Condensed Consolidated Interim Financial Statements  
**For the three months ended March 31, 2017 and 2016**  
**(Unaudited)**  
(Expressed in Canadian dollars)

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**6. SHARE CAPITAL (continued)**

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 months ended March 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.

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.

(c) Stock Options and Share-Based Payments

Stock options granted during the three months ended March 31, 2017 (2016 – nil) to the Company's officers, directors and consultants were as follows:

<b>Grant date</b>	<b>Number of options</b>	<b>Exercise price per share</b>	<b>Expiry date</b>
February 8, 2017	3,075,000	\$0.17	February 8, 2019

The market price of the Company's shares was \$0.30 on the grant date.

The February 8, 2017 stock options were fully vested on the grant date.

**Gen III Oil Corporation (formerly PNG Gold Corporation)**

Notes to the Condensed Consolidated Interim Financial Statements

**For the three months ended March 31, 2017 and 2016****(Unaudited)**

(Expressed in Canadian dollars)

**6. SHARE CAPITAL (continued)**

The fair value of the stock options granted was \$463,044, which was recognized as share-based compensation for the three months ended March 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:

	2017
Risk free interest rate	0.69%
Expected dividend yield	nil
Expected annual volatility	73%
Expected life	1 year
Forfeiture rate	nil

A summary of the status of the Company's stock options as at March 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	3,075,000	0.17
Outstanding and fully vested - March 31, 2017	3,595,000	0.40

**(d) Warrants**

As at March 31, 2017, there were 6,000,000 warrants outstanding of which, 2,775,000 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.

**Gen III Oil Corporation (formerly PNG Gold Corporation)**  
Notes to the Condensed Consolidated Interim Financial Statements  
**For the three months ended March 31, 2017 and 2016**  
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(Expressed in Canadian dollars)

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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 \$1,000 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 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 commitment of \$304,996. The commitments for the years ending December 31, 2017, 2018, 2019 and 2020 are \$55,760, \$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**

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	<b>Three months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Operating activities		
Interest income received from banks	729	1,323

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**Gen III Oil Corporation (formerly PNG Gold Corporation)**  
Notes to the Condensed Consolidated Interim Financial Statements  
**For the three months ended March 31, 2017 and 2016**  
**(Unaudited)**  
(Expressed in Canadian dollars)

**9. GEOGRAPHICAL AREA INFORMATION**

	Canada \$	Papua New Guinea \$	Total \$
<b>March 31, 2017</b>			
Property and equipment	8,328	-	8,328
Total assets	2,879,602	-	2,879,602
<b>December 31, 2016</b>			
Property and equipment	8,328	-	8,328
Total assets	586,535	1,150	587,685
		<b>Three months ended March 31,</b>	
		<b>2017</b>	<b>2016</b>
		\$	\$
Net loss – Canada		748,245	543,238
Net loss – Papua New Guinea		27,559	116,848
Total net loss		775,804	660,086

**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 three months ended March 31, 2017 (2016 - \$nil).

**11. SUBSEQUENT EVENTS**

- (a) On April 1, 2017, the Company granted of an aggregate of 300,000 stock options to an officer at an exercise price of \$0.46, expiring on the date that is 2 years from the date of the grant. These stock options will vest over a period of six months from the date of grant.
- (b) On April 17, 2017, the Company submitted a change of business application to the TSX Venture Exchange to become an industrial oil listed company.

**Gen III Oil Corporation (formerly PNG Gold Corporation)**  
Notes to the Condensed Consolidated Interim Financial Statements  
**For the three months ended March 31, 2017 and 2016**  
**(Unaudited)**  
(Expressed in Canadian dollars)

**11. SUBSEQUENT EVENTS (continued)**

- (c) On April 19, 2017, the Company settled \$345,576 in debt ("Debt") in exchange for 2,032,797 common shares (the "Shares") at a deemed price of \$0.17 per Share as follows:

<u>Creditor</u>	<u>Debt Amount</u>	<u>Number of Shares</u>	<u>Nature of Debt</u>
John Detmold, director	\$150,000	882,353	60 months of directors' fees at \$2,500 per month
Larry Van Hatten, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Larry Van Hatten, director	\$8,747	51,453	10.5 months of fees as audit committee chair at \$833 per month
Paul DiPasquale, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Brian Nethery, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Greg Clarkes, director and officer	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Greg Clarkes, director and officer	\$4,379	25,759	10.5 months of fees as compensation committee chair at \$417 per month
George Davidson, officer	\$50,400	296,470	6 months unpaid compensation (inclusive of taxes)
<b>Total</b>	<b>\$318,526</b>	<b>1,873,679</b>	

The remaining 159,118 Shares was issued to an arm's length creditor to settle \$27,050 in Debt. All Shares issued are subject to a four-month hold period. The Shares for Debt transactions in the table above are each a related party transaction.

- (d) On April 24, 2017, 250,000 warrants, at an exercise price of \$0.30 per warrant, were exercised for gross proceeds of \$75,000.
- (e) On April 30, 2017, 200,000 of the unvested stock options were forfeited due to the termination of an officer's employment.
- (f) On May 11, 2017, the Company changed its name to Gen III Oil Corporation.
- (g) On May 16, 2017, 250,000 warrants, at an exercise price of \$0.30 per warrant, were exercised for gross proceeds of \$75,000.
- (h) On May 17, 2017, the Company granted an aggregate of 480,000 stock options to employees and consultants at an exercise price of \$0.72, expiring on the date that is 2 years from the date of grant. All stock options will be subject to a four-month hold period in accordance with the policies of the TSX Venture Exchange. The vesting periods are as follows:
- 40,000 on May 17, 2017
  - 100,000 on September 1, 2017
  - 140,000 on November 1, 2017
  - 100,000 on December 1, 2017
  - 100,000 on June 1, 2018

B-1

**SCHEDULE "B"**  
**MD&A OF THE ISSUER**

(See attached)

**PNG Gold Corporation**

MANAGEMENT DISCUSSION AND ANALYSIS  
For the year ended December 31, 2016

As at April 26, 2017



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# **PNG Gold Corporation**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

For the year ended December 31, 2016

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April 26, 2017

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### **Introduction**

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PNG Gold Corporation (the “Company”) is incorporated under the laws of British Columbia, Canada and is extra provincially registered in Alberta. The Company’s shares are listed on the TSX Venture Exchange and trade under the symbol “PGK”. The Company’s principal business activities were related to its 100% interest in the Normanby exploration license and the Sehulea exploration license, on Normanby Island, eastern Papua New Guinea (“PNG”). On February 4, 2015, the Company announced its intention to enter into the oil re-refining business through a proposed transaction, which is more fully described below under “Proposed Transaction.” On February 16, 2016, the Company announced that it wouldn’t be proceeding with the proposed transaction. Pursuant to the forbearance agreement, the Company has had the right to use the patented ReGen™ technology since March 28, 2016 and became the beneficial owner of the patents on February 13, 2017. On April 17, 2017, the Company submitted a change of business application (“COB”) to the TSX Venture Exchange to become an industrial oil listed company, along with filing for a change of name to Gen III Oil Corporation. (see further information under “Re-refining Used Oil” below).

This Management Discussion & Analysis (“MD&A”) of the Company has been prepared by management as of April 26, 2017 and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). All monetary amounts referred to herein are in Canadian dollars unless otherwise stated.

The Company’s address is P.O. Box 93070, Caulfield Village, West Vancouver B.C., V7W 3G4, Canada.

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### **Forward Looking Information**

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This MD&A contains forward-looking statements and forward-looking information (collectively, “forward-looking statements”) within the meaning applicable to Canadian legislation. These statements relate to future events or the future activities or performance of the Company, statements that involve financial projections, substantial known and unknown risks and uncertainties, certain of which are beyond the control of the Company. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate, plans and similar expressions, or which by their nature refer to future events. Forward-looking statements include, but are not limited to, the quantity and quality of the re-refined products that might be produced; the cost of construction of the first ReGen™ re-refinery; raising sufficient capital to support the business plan; the estimated operating costs for the refinery; the market for the finished products; negotiating off-take agreements for those finished products; and the anticipated annual recurring revenue and EBITDA derived from those operations, statements regarding expectations to enter into the oil re-refining business, expectations to minimize capital expenditures and manage cash balances by scaling operations as circumstances dictate.

Forward-looking information is subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking information including, among other things, delays in obtaining or failure to obtain required governmental, environmental or other project approvals, changes in national or local government legislation or regulations regarding environmental factors, royalties, taxation or foreign investment, political or economic instability, terrorism, inflation, changes in currency exchange rates, fluctuations in commodity prices, delays in the development of projects, shortage of personnel with the requisite knowledge and skills, dependency on equity market financings to fund programs. In addition, forward-looking information is based on various assumptions including, among other things, the expectations and beliefs of management, the assumed long-term price of various commodities, the availability of permits and access to financing, equipment and labour. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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advised not to place undue reliance on forward-looking statements. Except as required under applicable securities legislation, the Company undertakes no obligation to publicly update or revise forward-looking information, whether as a result of new information, future events or others.

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## **Projects**

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### **Re-refining Used Oil**

On July 7, 2014, the Company entered into an agreement with VeroLube Inc. and its subsidiary, VeroLube Bowden Plant Inc. (collectively, "VeroLube") to loan \$140,000 to VeroLube Bowden Plant Inc. On November 28, 2014, The Company and VeroLube entered into a new loan agreement for \$500,000 ("VeroLube Loan") that included the previous \$140,000 loaned. 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, 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 will have repaid 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 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. The Company currently owns the ReGen™ re-refining technology; and either has, or is in the process of, transferring ownership of the various ReGen patents to the Company.

The Company believes the ReGen™ technology was the first in the world to re-refine used motor oil ("UMO") to produce Group III base lubricating oil (synthetic grade oil) in marketable quantities. Group III base lubricating oil sells for approximately 50% more than current re-refinery produced Group II products. The ReGen™ process utilizes common technologies in use throughout the world, but in a unique configuration and at specific temperature and pressure settings.

The patented ReGen™ re-refining technology:

- (a) Has been successfully tested in a 5 barrel per day prototype plant that ran for several thousand hours proving the technology from concept to a full working scale model.
- (b) Was extensively reviewed by the US Department of Energy's independent consultant Oakridge Laboratories, who reported the ReGen™ technology is derived from proven existing technologies and can successfully

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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- (c) produce a re-refined Group III synthetic grade base lubricating oil from UMO at a lower cost than current refining operations.
- (d) Was subsequently reviewed by Wood Group Mustang Engineering and Tetra Tech Engineering who independently concluded the ReGen™ technology is technically sound and commercially viable.
- (e) Was further investigated by ILF, Stantec Engineering ("Stantec") and WSP Canada Inc. ("WSP") who independently updated a preliminary construction cost estimate prepared by Mustang to reflect the cost of construction of a refinery if built in a specifically selected site in Alberta. The average all-in construction price as estimated by ILF, Stantec and WSP Engineering is approximately \$90 million for a 2,800 bpd plant.

In December 2016, the Company entered into contracts for engineering pre-FEED studies with Stantec and WSP to validate the previously modelled second stage design capability of the ReGen™ technology to produce 45% to 53% Group III base oil from UMO feedstock in addition to Group II base oil, ultralow sulphur diesel fuel, and asphalt flux from the other two stages in the ReGen™ process.

On March 29, 2017, the Company announced the following conclusions, subject to the assumptions and parameters set out therein, were reached in the engineering reports from Stantec and WSP:

- (a) The ReGen™ UMO re-refining process is technically sound. Stantec's report concluded "Having completed the Pre-FEED study and based upon the samples provided, it is Stantec's opinion that PNG's ReGen™ technology is technically viable and capable of producing high quality base oils meeting requirements of API 1509 Groups II and III. Furthermore, Stantec has concluded, after having conferred with the major manufacturers of the process equipment required to construct and operate the proposed 2,800 barrel per day re-refinery, that the project is feasible as proposed."

Similarly, WSP concluded "Having completed the pre-FEED study it is WSP's opinion that PNG's ReGen™ refining technology process is technically sound and construction and operation of the proposed re-refinery should provide finished products equivalent or greater than those contained in previous engineering studies."

- (b) The finished product stream generated from a ReGen™ re-refining process ("ReGen™") is reported to be of high quality and high quantity. Stantec reported 75% recovery of Group II and Group III base lubricating oils, of which 55% of the plant output was estimated to be Group III base oil. WSP's preliminary computer modeling showed 78% recovery of Group II and Group III base lubricating oil.
- (c) The preliminary operating costs using current market prices were projected by WSP to be 7% of the Company's projected revenue.
- (d) The capital cost of constructing a ReGen™ re-refinery in Bowden, Alberta was projected by Stantec to be approximately \$90 million\*. The numerous cost advantages associated with existing infrastructure in addition to the large storage tank farm located at the Bowden site were highlighted in the WSP report. Namely, rail and truck loading and unloading; existing concrete foundations; existing pipe rack; existing water supply; existing gas and electricity utilities; and the space to facilitate a modular construction strategy.

From additional research conducted by the Company, it was further determined:

- (a) Only 50% of the UMO collected in North America is estimated to be actually re-refined into Group I and Group II base lubricating oils, with the balance primarily being sold as low grade burner fuel.
- (b) Based on current prices, the cost of feedstock supply to the Bowden plant would represent 28%\* of the projected revenue when operating at steady state production.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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- (c) Market research shows a significant demand for Group III oil in Canada and the United States.
- (d) The current economic conditions in Alberta provide an excellent opportunity to attract quality fabrication contractors, with short production lead times, to manufacture the plant equipment modules at very attractive pricing.
- (e) The current exchange rate between the Canadian and US dollar provides a significant lift to the profitability of a Canadian built refinery.
- (f) Carbon credits available in Alberta should provide substantial additional revenue for the Company.
- (g) The patents that are granted or are pending by, or for, the Company are considered to be current and valid.
- (h) Based on the project product output contained in the engineering reports and the current commodity pricing, in the first full year of steady state production following commissioning of the first ReGen™ re-refinery, the Company projects recurring annual revenue of approximately \$159 million. This revenue is projected to produce recurring annual EBITDA of approximately \$100 million\*. EBITDA is a non GAAP measure\*.

As a result of these reports and research, the Company's management made the following recommendation to the Company's Board of Directors. The Board of Directors of PNG accepted all of management's recommendations and the Company is proceeding accordingly.

The Company submit a COB application to the TSX Venture Exchange to become an industrial oil listed company, along with filing for a change of name to Gen III Oil Corporation.

Subject to approval of the COB by the TSX Venture Exchange, which has not yet been received:

- (a) The Company accepts the bid for FEED and detailed engineering as submitted by Stantec Consulting Ltd. and immediately proceed with the next phase of development. That includes, completion of detailed engineering design, obtaining of all necessary refining permits, and ordering of long lead order equipment targeting a fall 2017 start of construction in Bowden.
- (b) The Company immediately pursue the next stage of development of this re-refinery to avail itself of market conditions for Group II and Group III base oil to leverage the advantages currently available to the Company in terms of availability of construction labour and inexpensive equipment manufacture and fabrication.
- (c) Immediately following commencement of construction of Bowden, the Company secures additional re-refining sites to export the technology elsewhere around the world.

*Notes:*

*\*Material Factors and Assumptions*

*Material factors and assumptions used to develop forward-looking information is as follows. The capital cost of constructing a ReGen™ Re-refinery in Bowden, Alberta was projected by Stantec to be approximately \$90 million. The assumptions used by Stantec were based on a complete equipment listing derived by Stantec with quotes from major equipment manufactures. Labour and incidentals were factored based on engineering industry standards. The assumption was made that a final lease will be successfully negotiated for the Bowden site.*

*The cost of feedstock supplied to the Bowden plant, projected to be 28% of projected revenue was based on the proposed nameplate capacity of 2,800 barrels per day and was derived from the US Energy Information Administration pricing dated December 31, 2016, compared to current output revenue projections from computer modelling contained in both engineering reports.*

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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*Projected revenue was calculated by multiplying the projected plant output of Group II and Group III base lubricating oils, as well as ultra-low sulphur diesel, asphalt flux and naphtha, in the volumes predicted in the engineering studies, by the projected plant nameplate capacity of 2,800 barrels per day, operating 330 days per year. Gulf coast spot pricing of those commodities as reported in Lubes & Greases base oil report on March 1, 2017, along OPIS International Feedstocks Intelligence report dated February 7, 2017, and the US Energy Information Administration dated December 31, 2016, converted into Canadian dollars at the average posted exchange rate on March 9, 2017 were used to calculate projected gross revenue.*

*Net income, a GAAP measure, would reduce projected EBITDA, a non-GAAP measure, by financing costs, depreciation and income taxes. Financing costs are currently projected to be \$5.4 million, amortization is calculated to be \$5.48 million, and income taxes are projected to be \$23.5 million, which leaves a net income of approximately \$65 million, which is a GAAP measure. This does not include potential greenhouse gas credits.*

#### *Future Oriented Financial Information*

*The information in respect of the anticipated capital costs of constructing the re-refinery in Bowden, Alberta, the cost of feedstock supply as a percentage of projected revenue, the recurring annual revenue and the recurring annual EBITDA, contains Future Oriented Financial Information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Company's proposed activities and potential results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions including the assumptions discussed above under the heading "Material Factors and Assumptions". The actual results of the Company's proposed operations and the projected financial results may vary from the amounts set forth herein, and such variations may be material. Management believes that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments.*

The Company has identified:

- (a) A currently permitted refinery site in central Alberta, which could include an off-take agreement for the finished products from the proposed plant and 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 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;
- (b) Potential other customers who also could enter into off-take agreements for the purchase of the full production of the proposed plant site;
- (c) Federal and Provincial government loans and grants, which could cover a portion of the cost (estimated to be up to \$10 million) for the construction of the plant;
- (d) Key management personnel for the project;
- (e) Environmental consultants to quantify the greenhouse gas credits that could be generated by the plant, estimated to be approximately \$10 million per year and;
- (f) UMO feedstock suppliers for the plant. Feedstock is readily available from the more than 50% of currently collected UMO that is sold in North America today as low cost burner fuel.

Additionally, the Company is in negotiations with UMO collection companies to provide the feedstock quantities necessary to support a 2,800 barrel per day re-refinery, as well as also commencing preliminary negotiations with potential purchasers for all of the off-take products that will be produced by the re-refinery.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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#### **Mineral Properties**

The Normanby exploration license – EL 1091 – is located on the north side of Normanby Island, approximately 80 kilometres northeast of Alotau, the provincial capital of Milne Bay province, eastern Papua New Guinea (“PNG”). The project consists of two main prospects, Imwauna and Kelas, along with numerous untested prospects. The flagship Imwauna gold deposit is a high grade, near surface, low sulphidation, epithermal vein gold system. Gold mineralization ranges from 0.5 metres to 6.0 metres in the Imwauna Main structure. The Imwauna prospect remains open in the North and South at strike and at depth.

The Sehulea exploration license – EL 1069 – is located north east of Imwauna on Normanby Island and contains several low sulphidation epithermal gold deposits which require additional drill testing. Previous results indicate the area contains extensive lower grade gold mineralization over intercepts of up to 60 metres core length with grades ranging between 1-2 grams/tonne (“g/t”) gold. Mineralization is associated with extensive silicification, disseminated, and semi-massive pyrite, with a positive correlation between higher pyrite concentrations and gold.

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 will not be renewed. The refusal notice was signed by the PNG Minister for Mining on September 1, 2016. This action on the part of the MRA has come as a complete surprise to the Company as it has previously renewed the licenses without any issues. Indeed, the Company completed a work program in November 2015 and 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.

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.

The terms of the exploration licenses and expenditure commitments, which have been met are as follows:

Exploration License	Expiry date	Expenditure Commitment
Normanby	April 24, 2016	\$164,000
Sehulea	January 5, 2016	\$103,000

In accordance with the terms of a purchase and sale agreement between the Company, New Guinea Gold Limited and New Guinea Gold Corporation (together “NGG”), the Company acquired a 50% interest in the Normanby and Sehulea properties on Normanby Island, Milne Bay Province, PNG. In addition to the 50% interest already owned, an option agreement between the same parties gave the Company the right to earn the remaining 50% interest in the properties by spending \$8,000,000 in exploration and related expenditures by August 20, 2013. Through its ongoing drilling program on the Imwauna prospect and other exploration and development activities on both properties, the Company met its total expenditure obligation almost two years ahead of schedule and in the fourth quarter of 2011, the Company notified NGG that it had exercised its option to acquire the remaining 50% interest in the Normanby and Sehulea properties. On January 5, 2015, 100% ownership of and title to the Normanby and Sehulea properties were transferred to the Company by the Mineral Resources Authority.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

On March 31, 2017, the Company sold its wholly owned subsidiary, NMC Mining Corp, to 0804077 BC Ltd. for gross proceeds of one dollar plus future recoveries that are contingent upon certain future events occurring. NMC Mining Corp indirectly holds the Company's assets in Papua New Guinea.

#### Exploration and Evaluation Expenditure

Exploration expenditures during the year ended December 31, 2016 amounted to \$256,692 (2015 - \$463,672), respectively.

The cumulative exploration expense on the Company's mineral interest properties is set out in the tables below.

	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

	Papua New Guinea		
	Normanby	Sehulea	Total
	\$	\$	\$
Exploration expense:			
Administration	44,738	16,541	61,279
Consulting	33,222	20,947	54,169
Equipment	110,598	109,818	220,416
Field supplies	1,409	851	2,260
Legal	11,938	11,938	23,876
Transportation	9,273	3,720	12,993
Travel	13,312	8,676	21,988
Wages	52,165	14,526	66,691
Year ended December 31, 2015	276,655	187,017	463,672
Cumulative to December 31, 2014	25,052,975	2,210,325	27,263,300
Cumulative to December 31, 2015	25,329,630	2,397,342	27,726,972

Under PNG mining laws, the PNG government has the right to elect at any time prior to commencement of mining, to make a single purchase of up to 30% equity interest in any mineral discovery arising from the Company's exploration licenses, at a price pro rata to the accumulated exploration expenditure.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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#### Operations Update and Outlook

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On April 17, 2017, the Company submitted a COB application to the TSX Venture Exchange to become an industrial oil listed company, along with filing for a change of name to Gen III Oil Corporation. The Company intends to pursue the next stage of development of this re-refinery to avail itself of market conditions for Group II and Group III base oil to leverage the advantages currently available to the Company in terms of availability of construction labour and inexpensive equipment manufacture and fabrication.

#### Financial Update

During the fourth quarter of 2016 and the first quarter of 2017, the Company raised gross proceeds of \$3.5 million primarily to complete engineering studies to assess the viability of the ReGen™ process; to undertake additional patent work regarding the ReGen™ process; to provide a deposit to secure a potential plant site in Western Canada; to pay compensation to certain directors and officers of the Company; to pay commissions to finders in connection with the financings; to pay the expenses of the financings; and for working capital and general corporate purposes.

#### Proposed Transaction

On February 4, 2015, the Company and VeroLube Inc. ("VeroLube") entered into a binding term sheet (the "Term Sheet") providing for the acquisition by the Company of VeroLube, a private company incorporated under the federal laws of Canada (the "Business Combination"). On February 16, 2016, the Company announced that it will not be proceeding with the Business Combination. As a result of the proposed transaction, the Company's common shares on the Exchange was halted and trading resumed on May 26, 2016.

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#### Annual and Fourth Quarter Financial Results

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##### Variance Analysis

The following table sets forth selected (Income)/Expense items that have significant variances between the three months and years ended December 31, 2016 and 2015.

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Exploration	30,841	172,562	256,692	463,672
General and administration	59,085	76,948	228,820	322,589
Professional fees	198,825	54,121	475,350	293,000
Salaries and benefits	244,722	236,125	786,292	966,220
Travel and accommodation	8,985	(1,690)	10,690	63,750
Interest income	(44,743)	(41,737)	(175,306)	(192,503)
Impairment	44,441	1,435,648	477,075	1,435,648

Exploration – Since the Company lost its exploration rights and ownership of the mineral interest, there was a decrease in exploration expense in the current quarter. Furthermore, the Company did not recognize any amortization expenses in the current quarter as it sold its drilling equipment in November 2016. The year-to-date decrease was due to lower exploration and amortization expense, offset by assaying costs related to the small rock and soil sampling program at Normanby and Sehulea.

General and administration – The decrease in 2016 was due to lower expenditures for telephone, office supplies and services, meals and entertainment and rent as the Company continued to reduce costs at head office.

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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**Professional fees** – Professional fees depend on the timing of the services being rendered and will vary from period to period. The increase during the three months and year ended December 31, 2016 was mainly due to the services of legal counsel and external consultants engaged to investigate opportunities relating to VeroLube Inc.'s patented ReGen™ technology.

**Salaries and benefits** – The decrease was mainly due to the termination of three employees at the corporate head office. Severance payments were incurred in the first quarter of 2016.

**Travel and accommodation** – Travel expenses to evaluate potential projects depend on the timing of the trip and therefore, expenses vary from period to period.

**Interest income** – Included in interest income was interest accrued on the VeroLube Loan.

**Impairment** – In 2016, the Company recognized impairment losses of \$164,375 on the loan to VeroLube (discussed in Transactions with Related Parties section), \$216,819 in mineral interests (discussed in Projects section) and \$112,700 in drilling equipment (discussed below). In 2015, the Company recognized impairment losses of \$747,066 on the VeroLube loan, \$45,880 on the investment in VeroLube, \$595,097 on drilling equipment and \$47,665 on receivables, equipment and furniture.

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 \$112,700 (2015 - \$nil) on drilling equipment. The Company was informed by the MRA on October 4, 2016 that both of its exploration license renewal applications were refused and will not be renewed. 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.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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#### Selected Annual Financial Information

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The following table summarizes selected financial data reported by the Company for the periods indicated. The information set forth in the table should be read in conjunction with the audited consolidated financial statements and notes, prepared in accordance with IFRS for the periods indicated.

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	Year ended December 31,		
	2016	2015	2014
			(restated)
	\$	\$	\$
<b>Consolidated Statements of Comprehensive Loss:</b>			
Expense	1,775,907	2,130,988	2,543,319
Other (income) expense	377,068	1,242,456	(86,830)
Loss before income taxes and loss for the year	2,152,975	3,373,444	2,456,489
Other comprehensive (income) loss	1,568	(15,812)	124,304
Total comprehensive loss for the year	2,154,543	3,357,632	2,580,793
Loss per share – basic and diluted	0.08	0.13	0.02
<b>Consolidated Statements of Financial Position:</b>			
Mineral interests	-	216,819	211,792
Total assets	587,685	1,686,193	4,974,911
Total liabilities	1,632,857	1,078,554	1,009,640

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Expense – The decrease in total expense was mainly due to the reduction of drilling activities in PNG and reduction of full time employees and general and administration costs at the head office.

Other expense – The fluctuation between periods was due to the amount of impairment losses that was recognized. The Company recorded impairment losses as noted in the table below (there were no indicators of impairment as at December 31, 2014).

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	Year ended December 31	
	2016	2015
	\$	\$
VeroLube loan	164,375	747,006
Investment in VeroLube	-	45,880
Accounts receivable from VeroLube	-	13,533
Computer, equipment and furniture	-	34,132
Drilling equipment	95,881	595,097
Mineral interest	216,819	-
Total impairment loss	477,075	1,435,648

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Other comprehensive income (loss) – The fluctuation between periods was due to the exchange difference on translating the foreign operation balances and results from its functional currency (PNG Kina) into the reporting currency (Canadian dollar) as the exchange rate fluctuated from period to period. The fluctuation is also related to the fair value movements of available-for-sale investments. Unrealized gains and losses are recognized in other

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

comprehensive income (loss). When the losses are considered other than temporary, they are reclassified to net loss as an impairment loss.

Mineral interests – Mineral interests include the acquisition cost on the exploration licenses, foreign exchange gains or losses less impairment loss. Since the Company lost its exploration rights and ownership of the mineral interests, the amount was \$nil as at December 31, 2016.

Total assets – The decrease in total assets was due to cash used during the year and impairment loss recognized on property and equipment, loans and investments.

### Summary of Quarterly Financial Results

The following table provides selected financial information of the Company for each of the last 8 quarters presented in accordance with IFRS.

	For the Quarters Ended			
	December 31, 2016 \$	September 30, 2016 \$	June 30, 2016 \$	March 31, 2016 \$
Financial Results:				
Expense	551,028	216,169	341,329	667,381
Other (income) expense	76,215	312,171	(4,023)	(7,295)
Net loss	627,243	528,340	337,306	660,086
Basic and diluted loss per share	0.02	0.00	0.00	0.01

	For the Quarters Ended			
	December 31, 2015 \$	September 30, 2015 \$	June 30, 2015 \$	March 31, 2015 \$
Financial Results:				
Expense	542,686	502,757	559,167	526,378
Other (income) expense	1,391,438	(35,642)	(35,940)	(77,400)
Net loss	1,934,124	467,115	523,227	448,978
Basic and diluted loss per share	0.01	0.00	0.00	0.00

### Liquidity, Capital Resources, Commitments and Contingencies

#### Working Capital and Cash

During the year ended December 31, 2016, cash and cash equivalents decreased by \$390,084. The decrease was due mainly to cash used in operations \$1,121,751, offset by net cash raised in the private placement \$501,732 and proceeds from sale of drilling equipment \$229,935.

As at December 31, 2016, the Company had working capital deficiency of \$1,084,121 comprised of cash and cash equivalents of \$442,663, accounts receivable of \$28,040 and prepaid expenses of \$78,033 offset by accounts payable and accrued liabilities of \$1,632,857.

During the fourth quarter of 2016 and the first quarter of 2017, the Company raised gross proceeds of \$3.5 million primarily for to complete engineering studies to assess the viability of the ReGen™ process; to undertake additional patent work regarding the ReGen™ process; to provide a deposit to secure a potential plant site in Western Canada;

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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to pay compensation to certain directors and officers of the Company; to pay commissions to finders in connection with the financings; to pay the expenses of the financings; and for working capital and general corporate purposes.

#### **Going Concern**

The Company's consolidated financial statements for the year ended December 31, 2016 have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has not yet achieved profitable operations and expects to incur further losses in the development of its business. For the year ended December 31, 2016, the Company reported a comprehensive loss of \$2,154,543 and as at December 31, 2016, had an accumulated deficit of \$72,139,561. 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, cash requirements, and recent financings, the Company has sufficient cash to finance its current plans for the next 12 months. However, actual results could be materially different than those expected or budgeted and the Company expects to continually monitor spending and assess results on an ongoing basis and make appropriate changes to expenditures as required. Management continues to explore alternative financing sources in the form of equity, debt or a combination thereof; however, the current economic uncertainty and financial market volatility make it difficult to predict success.

#### **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 \$64,041,965 and no long-term debt as at December 31, 2016. 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, monitoring, 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 expects to 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.

#### **Mineral Properties Obligation**

As discussed in the "Projects" section of this MD&A, 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 will not be renewed. The refusal notice was signed by the PNG Minister for Mining on September 1, 2016. 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.

On March 31, 2017, the Company sold its wholly owned subsidiary, NMC Mining Corp. to 0804077 BC Ltd. for gross proceeds of one dollar plus future recoveries that are contingent upon certain future events occurring. NMC Mining Corp indirectly holds the Company's assets in Papua New Guinea.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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The terms of the exploration licenses and expenditure commitments, which have been met are as follows:

Exploration License	Expiry date	Expenditure Commitment
Normanby	April 24, 2016	\$164,000
Sehulea	January 5, 2016	\$103,000

#### Contractual Obligations

The Company has rented an office in Calgary on a month to month basis for \$1,000 per month.

In December 2016, the Company entered into contracts related to the ReGen™ Process for engineering pre-FEED studies with a remaining commitment of \$214,268 to be incurred in 2017.

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 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 commitment of \$304,996.

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.

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#### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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#### Transactions with Related Parties

Transactions with related parties are measured at an exchange amount established and agreed to by the related parties. Key Management personnel includes the Chief Executive Officer, the President, the Chief Financial Officer, and the Directors. For the year ended December 31, 2016 and 2015, salaries to Key Management amounted to \$762,905 and \$697,875, respectively. During the year ended December 31, 2016, severance in the amount of \$57,000 (2015 - \$nil) was paid to the Company's former President.

For the year ended December 31, 2016, salaries to Key Management included fees of \$10,000 (2015 - \$nil) that were paid to a company that is controlled by the Company's current President (George Davidson). For the year ended December 31, 2016, professional fees included \$60,000 (2015 - \$nil) that was paid to a company that is controlled by a director (Larry Van Hatten).

On December 13, 2016, George Davidson's spouse and Larry Van Hatten purchased 50,000 and 500,000 units, respectively of the Company's first tranche of a non-brokered private placement (the "Offering"). The Offering consisted of the issuance of a total of 5,550,000 units (the "Units") at a price of \$0.10 per Unit for gross proceeds of

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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\$555,000. 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 December 12, 2017.

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 Inc. and its subsidiary, VeroLube Bowden Plant Inc. (collectively, "VeroLube") to loan \$140,000 to VeroLube Bowden Plant Inc. The Company's Chief Executive Officer and director (Greg Clarkes) is also a director of VeroLube Inc. The Company advanced the \$140,000 on July 9, 2014 to assist with plant and property lease payments. The loan bore interest at 5% per annum, was unsecured and matured on September 1, 2014. As at September 30, 2014, VeroLube had not repaid the loan plus accrued interest of \$1,611 and was in default in accordance with the terms of the loan agreement. The Company performed an impairment analysis of this outstanding loan and determined that the full amount outstanding including accrued interest was impaired. As a result, the Company recognized an impairment loss for the outstanding amount in the statement of comprehensive loss for the three and nine months ended September 30, 2014. The impairment was subsequently reversed as a result of the \$500,000 secured loan agreement entered into on November 28, 2014.

On November 28, 2014, The Company and VeroLube entered into a new loan agreement for \$500,000 ("VeroLube Loan") that includes the previous \$140,000 loaned. Under the terms of the agreement, the VeroLube Loan shall be repayable on that day which falls 10 calendar days after the date of receipt by VeroLube of written demand made by the Company. The Company shall not make demand for the repayment of the VeroLube Loan before March 30, 2015 ("Maturity Date"). At any time and at the option of the Company, all or any part of the VeroLube Loan may be converted, in whole or in part, into common shares in the capital of VeroLube at a rate equal to the conversion price of \$0.40 per share (the "Conversion Feature"). Interest will accrue at the rate of 20% per annum, calculated daily and compounded monthly and shall be payable by VeroLube to the Company on the Maturity Date. The VeroLube Loan is secured by a charge against all present and after-acquired assets of VeroLube, including the patents related to the ReGen™ technology (the "Patents"). In addition, VeroLube has given the following additional consideration for the VeroLube Loan:

- (a) issued to the Company 250,000 common shares of VeroLube ("Investment in Verolube Inc.");
- (b) granted to the Company a royalty-free, non-exclusive, perpetual license to use VeroLube's patented ReGen™ process in Canada, Mexico and Central and South America; and
- (c) granted to the Company security interest against all of VeroLube's present and after-acquired personal property.

For accounting purposes, the Company estimated the fair value of each of the instruments in the VeroLube Loan. The fair value of the loan receivable upon initial recognition was determined to be \$462,500, which considered the length to maturity of the loan, the collateral available to the Company and the risk of repayment default.

The loan was accreted using the effective annual interest rate of 46% such that the carrying amount equaled the principal amount of \$500,000 as at March 31, 2015. The amortized cost of the loan was \$471,829 as at December 31, 2014.

The fair value of the Investment in Verolube Inc. was estimated to be \$37,500 based on \$0.15 per share, which was adjusted to take into account changes in market conditions that affected a composite of comparable publically traded companies. The estimated fair value of the Conversion Feature was a nominal amount based on the Black-Scholes valuation model and therefore, no value was allocated to the Conversion Feature. No value was allocated to the perpetual license for the non-exclusive use of the ReGen™ technology because the technology has never been in commercial production and therefore, it was not possible to reliably estimate the future cash flows.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

Under the terms of the term sheet, the Company agreed to lend VeroLube an additional \$250,000 to maintain its business, and that upon written request, the Company will provide additional loans to VeroLube on terms satisfactory to the Company at its sole discretion. During the year ended December 31, 2015, \$112,613 of the additional \$250,000 was loaned to VeroLube. VeroLube has agreed to issue 55,875 common shares to the Company as additional consideration for the loans.

On July 20, 2015, the Company announced that the date to complete the Business Combination had passed without conclusion of a transaction due to a number of significant developments related to VeroLube that have hampered the due diligence process necessary to finalizing the transaction. The Company agreed not to call its outstanding loan plus accrued interest to VeroLube. In return, VeroLube agreed to give the Company the non-exclusive rights to its patented and certified ReGen™ used oil re-refining process for the US market. The Company then had the non-exclusive rights to VeroLube's technology for North America, Central America and South America.

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 January 1, 2014	-
Fair value of funds advanced	462,500
Accretion	9,329
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	-

On March 28, 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 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 would be free to exercise its rights and remedies under the loan documents as it saw fit. VeroLube did not fulfill these conditions. The Forbearance Agreement provided that if VeroLube did fulfill those conditions, it will have repaid 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. While it is the assignee of the Patents, the Company will be responsible for paying all reasonable expenses associated with the maintenance of the Patents, and for retaining a lawyer to review the Patents for matters such as validity and jurisdiction, and such expenses shall be added to the amount of the indebtedness. 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 the 305,875 common shares of VeroLube is nil and consequently, the Company has not assigned any value to the common shares of VeroLube.

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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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 assignment of the patents, both as provided for in the Forbearance Agreement. All other terms and conditions of the Forbearance Agreement will remain in full force and effect. On January 16, 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 is proceeding to enforce its security over the VeroLube patents and personal property.

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. The sale of the drilling equipment was made to a related party of the Company, which had two common directors (John Detmold and Bryan Nethery) with the Company.

Included in accounts payable and accrued liabilities as at December 31, 2016 is \$268,128 (2015 - \$120,000) of accrued directors' fees (see Outstanding Share Data section) and \$4,000 (2015 - \$nil) of accrued expense allowance payable to the Chief Executive Officer (Greg Clarkes).

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## **Financial Instruments and Risk Management**

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### Fair Value of Financial Instruments

The Company's financial instruments at December 31, 2016 include cash and cash equivalents, accounts receivable, VeroLube Loan, Investment in COY, Investment in VeroLube Inc., 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 the Investment in Verolube Inc. is discussed above under "Transactions with Related Parties." The fair value of Coppermoly shares was based on the closing prices of those shares on Australian Stock Exchange.

### 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 lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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 \$
<b>December 31, 2016:</b>			
Cash and cash equivalents	442,663	-	-
Investment in Coppermoly Ltd.	30,621	-	-
<b>December 31, 2015:</b>			
Cash and cash equivalents	832,747	-	-
Investment in Coppermoly Ltd.	22,966	-	-

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, 2016 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. At this time there are no currency hedges in place.

As at December 31, 2016, the Company is exposed to currency risk through the following assets and liabilities denominated in foreign currency:

	Foreign currency	Exchange rate	Canadian Dollar
Cash – Papua New Guinea Kina	2,623	0.4220	1,107
Cash – Australian Dollar	956	0.9681	925
Accounts payable – Papua New Guinea Kina	(1,689,146)	0.4220	(712,820)
Accounts payable – Australian Dollar	(10,000)	0.9681	(9,681)
Accounts payable – United States Dollar	(9,615)	1.3442	(12,924)
			(733,393)

A 10% change in the exchange rate of the Papua New Guinea Kina against the Canadian dollar would affect other comprehensive income (loss) by approximately \$71,200.

A 10% change in the exchange rate of the Australian dollar against the Canadian dollar would affect other comprehensive income (loss) by approximately \$900.

A 10% change in the exchange rate of the United States dollar against the Canadian dollar would affect other comprehensive income (loss) by approximately \$1,300.

**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

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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2016, the Company received \$2,126 of interest income from banks and accrued \$164,375 of interest income on the VeroLube Loan, which was impaired. A 1% change in interest rate would affect income (loss) before tax of approximately \$5,000.

**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, 2016, the Company has \$442,663 in cash and cash equivalents, \$1,632,857 in current liabilities and no long-term liabilities (see note 1 regarding going concern).

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 \$3,000 before tax.

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#### Outstanding Share Data

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As at April 26, 2017, the following shares are outstanding:

- Authorized: Unlimited common shares without par value  
Unlimited number of preferred shares without par value
  
- Issued and outstanding: 48,198,954 common shares
  
- Stock options outstanding and fully vested:
  - 520,000 with exercise price of \$1.75 per option and an expiry date of August 27, 2017
  - 3,075,000 with exercise price of \$0.17 per option and an expiry date of February 8, 2019
  - 100,000 with exercise price of \$0.46 per option and an expiry date of April 1, 2019

Effective November 11, 2016, the Company consolidated its share capital, stock options, on a 5-to-1 basis. In accordance with IAS 10 and IAS 33, the Company's basic and diluted loss per share presented in its consolidated statements of loss and comprehensive loss for the year ended December 31, 2016 and 2015, 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 (the "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 ("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. All securities issued under the Offering are subject to a four month hold period expiring on April 13, 2017.

On February 8, 2017, the Company granted of an aggregate of 3,075,000 stock options to employees, consultants and directors at an exercise price of \$0.17, expiring on the date that is 2 years from the date of the grant. These stock

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

options fully vested on the date of grant. All stock options will be subject to a four-month hold period in accordance with the policies of the TSX Venture Exchange.

On February 9, 2017, the Company closed the final tranche of its non-brokered private placement. Under the final tranche of the Offering, the Company closed upon 6,450,000 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 with each whole Warrant entitling the holder to acquire one common share at a price of \$0.30 per share for a period of two years. 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. All securities issued under the final tranche are subject to a four month hold period expiring on June 9, 2017.

In total under the Offering, the Company issued 12,000,000 Units for aggregate gross proceeds of \$1,200,000. Certain finder's received a cash fee of up to 8% of the proceeds Offering.

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. All securities issued under the private placement are subject to a four month hold period from the date of issuance. Certain finders received a cash fee equal to 8% of the proceeds of the private placement.

On April 1, 2017, the Company granted of an aggregate of 300,000 stock options to an officer at an exercise price of \$0.46, expiring on the date that is 2 years from the date of the grant. These stock options will vest over a period of six months from the date of grant.

On April 19, 2017, the Company settled \$345,576 in debt ("Debt") in exchange for 2,032,797 common shares (the "Shares") at a deemed price of \$0.17 per Share as follows:

<u>Creditor</u>	<u>Debt Amount</u>	<u>Number of Shares</u>	<u>Nature of Debt</u>
John Detmold, director	\$150,000	882,353	60 months of directors' fees at \$2,500 per month
Larry Van Hatten, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Larry Van Hatten, director	\$8,747	51,453	10.5 months of fees as audit committee chair at \$833 per month
Paul DiPasquale, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Brian Nethery, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Greg Clarkes, director and officer	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Greg Clarkes, director and officer	\$4,379	25,759	10.5 months of fees as compensation committee chair at \$417 per month
George Davidson, officer	\$50,400	296,470	6 months unpaid compensation (inclusive of taxes)
<b>Total</b>	<b>\$318,526</b>	<b>1,873,679</b>	

The remaining 159,118 Shares was issued to an arm's length creditor to settle \$27,050 in Debt. All Shares issued is subject to a four-month hold period. The Shares for Debt transactions in the table above are each a related party transaction.

On April 24, 2017, 250,000 warrants, at an exercise price of \$0.30 per warrant, were exercised for gross proceeds of \$75,000.

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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#### **Critical Accounting Estimates**

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The preparation of the Company's 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 following:

- (i) The carrying value and the recoverability of property and equipment and exploration and evaluation assets

The application of the Company's accounting policy for identifying impairment indicators under IFRS requires judgment. If indicators are identified, the determination of recoverable amount of property and equipment and capitalized exploration and evaluation assets requires judgment in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

- (ii) The carrying value of loan receivable

The fair value of the loan receivable is based on the length to maturity of the loan, the collateral available to the Company, the risk of repayment default and other consideration exchanged. Changes in assumptions, valuation of other consideration exchanged or new information becoming available, can materially affect the fair value of the loan receivable. The fair value of other consideration exchanged is based on a combination of the Black-Scholes valuation model and comparisons to a composite of comparable publically traded companies. The Black-Scholes valuation model incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimates.

VeroLube granted to the Company a royalty-free, non-exclusive, perpetual license to use VeroLube's patented ReGen™ process in North America, Central America and South America. No value was allocated to the perpetual license for the non-exclusive use of the ReGen™ technology because the technology has never been in commercial production and therefore, it was not possible to reliably estimate the future cash flows.

#### Critical accounting judgments

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

- (i) The analysis of the functional currency for each entity of the Group - In accordance with IAS 21, the Effects of Changes in Foreign Exchange Rates, management determined that the functional currency of Normanby PNG is the Papua New Guinea Kina and for all other entities within the Group, the functional currency is the

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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Canadian dollar, as these are the currencies of the primary economic environment in which the companies operate.

- (ii) 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.

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#### **Recent Accounting Pronouncements**

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The Company is currently evaluating the following standards issued but 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.

**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.

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#### **Risks and Uncertainties**

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The Company's expectation to enter into the oil re-refining business and its business in gold exploration, development and mining involves a significant degree of risk. The risk factors set out below should be considered. It should be noted that the risks discussed below are not exhaustive and that other risks may apply.

##### **Financing ability**

The Company's ability to enter into the oil re-refining business will be largely reliant on its continued attractiveness to equity investors. The Company will incur operating losses as it continues to expend funds to enter into the oil re-refining business. There is no guarantee that the Company will be able to successfully enter into the oil re-refining business. Furthermore, should the Company require additional capital, failure to raise such capital could result in delay or indefinite postponement of the Company's business activities. From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards.

##### **Dependence on key personnel**

The Company depends on a relatively small number of key qualified personnel, key senior management and other employees. As the Company's business grows, the Company may recruit additional management and other personnel. There is no assurance that the key qualified personnel will continue to provide services to the Company or will honour

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

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the agreed terms and conditions of their employment or contracts. Any loss of key personnel or failure to recruit and retain personnel for the Company's future operations and development could have a material adverse effect on the Company's business and results of operations. The Company does not have key person insurance on these individuals.

#### Volatile stock price

Trading in the Company's shares has been temporarily halted pending the results of its Proposed Transaction. The stock price of the Company is expected to be highly volatile when its shares resume trading and will be drastically affected by operating results. The Company cannot predict the results of its future business activities. The results of these activities will inevitably affect the Company's decisions related to further programs at any of the properties that the Company may hold in the future and will likely trigger major changes in the trading price of the Company's shares.

#### Potential conflicts of interest

Some of the directors or officers of the Company are also directors, officers and/or promoters of other reporting and non-reporting issuers. Situations may arise where the directors and/or officers of the Company may be in competition with the Company. Any conflicts will be subject to and governed by the law applicable to directors' and officers' conflicts of interest. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interest of the Company.

#### No dividends

Any payments of dividends will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the Company's board of directors may consider appropriate in the circumstances. It is unlikely that the Company will pay dividends in the immediate or foreseeable future.

#### Risk management and internal control systems.

The Company's directors together with its senior management are responsible for overseeing the Company's internal control policies and procedures. The Company has established risk management and internal control systems consisting of policies, procedures and risk management methods that the Company believes are appropriate for the Company's business operations. However, due to the inherent limitations in the design and implementation of these systems, there is a risk that these systems will not be sufficiently effective in identifying and preventing a deficiency in internal controls. In addition, as some of the risk management and internal control policies and procedures are relatively new, the Company may need to establish and implement additional policies and procedures to further improve the Company's systems from time to time. Since the Company's risk management and internal controls depend on implementation by Company employees, there is a risk that such implementation will involve human errors or mistakes. If the Company fails to implement its policies and procedures in a timely manner, or fails to identify risks that affect the Company's business, its business, results of operations and financial condition could be materially and adversely affected.

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#### **Qualified Person**

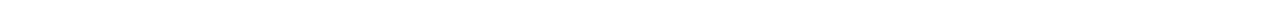
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All technical information about the Company's mineral properties contained in this MD&A has been prepared under the supervision and approval of Lorne Warner, PGeo, a consultant to the Company, who is a "qualified person" within the meaning of National Instrument 43-101.

**PNG Gold Corporation**

MANAGEMENT DISCUSSION AND ANALYSIS  
For the year ended December 31, 2015

As at March 15, 2016



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# **PNG Gold Corporation**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

For the year ended December 31, 2015

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March 15, 2016

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### **Introduction**

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PNG Gold Corporation (the “Company”) is incorporated under the laws of British Columbia, Canada. The Company’s shares are listed on the TSX Venture Exchange and trade under the symbol “PGK”. The Company’s principal business activities were related to its 100% interest in the Normanby exploration license and the Sehulea exploration license, on Normanby Island, eastern Papua New Guinea (“PNG”). On February 4, 2015, the Company announced its intention to enter into the oil re-refining business through a proposed transaction, which is more fully described below under “Proposed Transaction.” On February 16, 2016, the Company announced that it will not be proceeding with the proposed transaction.

This Management Discussion & Analysis (“MD&A”) of the Company has been prepared by management as of March 15, 2016 and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”). All monetary amounts referred to herein are in Canadian dollars unless otherwise stated.

The Company’s head office is located at Suite 600-1090 West Pender Street, Vancouver, BC V6E 2N7, Canada.

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### **Forward Looking Information**

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This MD&A contains forward-looking statements and forward-looking information (collectively, “forward-looking statements”) within the meaning applicable to Canadian legislation. These statements relate to future events or the future activities or performance of the Company. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate, plans and similar expressions, or which by their nature refer to future events. Forward-looking statements include, among other things, statements regarding expectations to enter into the oil re-refining business, expectations to minimize capital expenditures and manage cash balances by scaling drilling and administrative operations as circumstances dictate, expectations to continue scaling down both operating and head office costs in 2016, and expectations to reduce employees.

Forward-looking information is subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking information including, among other things, failure to establish mineral resources, delays in obtaining or failure to obtain required governmental, environmental or other project approvals, changes in national or local government legislation or regulations regarding environmental factors, royalties, taxation or foreign investment, political or economic instability, terrorism, inflation, changes in currency exchange rates, fluctuations in commodity prices, delays in the development of projects, shortage of personnel with the requisite knowledge and skills to design and execute exploration programs, difficulties in arranging contracts for drilling and other exploration and development services, dependency on equity market financings to fund programs and maintain and develop mineral properties, risks associated with title to resource properties and difficulties of determining the validity of certain tenures. In addition, forward-looking information is based on various assumptions including, among other things, the expectations and beliefs of management, the assumed long-term price of various minerals, the availability of permits and surface rights, and access to financing, equipment and labour. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements. Except as required under applicable securities legislation, the Company undertakes no obligation to publicly update or revise forward-looking information, whether as a result of new information, future events or others.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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#### Projects

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The Normanby exploration license – EL 1091 – is located on the north side of Normanby Island, approximately 80 kilometres northeast of Alotau, the provincial capital of Milne Bay province, eastern Papua New Guinea (“PNG”). The project consists of two main prospects, Imwauna and Kelas, along with numerous untested prospects. The flagship Imwauna gold deposit is a high grade, near surface, low sulphidation, epithermal vein gold system. Gold mineralization ranges from 0.5 metres to 6.0 metres in the Imwauna Main structure. The Imwauna prospect remains open in the North and South at strike and at depth.

The Sehulea exploration license – EL 1069 – is located north east of Imwauna on Normanby Island and contains several low sulphidation epithermal gold deposits which require additional drill testing. Previous results indicate the area contains extensive lower grade gold mineralization over intercepts of up to 60 metres core length with grades ranging between 1-2 grams/tonne (“g/t”) gold. Mineralization is associated with extensive silicification, disseminated, and semi-massive pyrite, with a positive correlation between higher pyrite concentrations and gold.

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 \$136,000. The Company is awaiting the results of its Sehulea exploration license renewal application. The two year term of the Normanby exploration license will be expiring 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 \$195,000.

The Company completed a small rock and soil sampling program at Normanby and Sehulea in November 2015. The purpose of the sampling program is to obtain information for further evaluation of these exploration areas. The samples have been sent to a laboratory for further analysis. The current terms of the exploration licenses and expenditure commitments, which have been met are as follows:

Exploration License	Expiry date	Expenditure Commitment
Normanby	April 24, 2016	\$164,000
Sehulea	January 5, 2016	\$103,000

In accordance with the terms of a purchase and sale agreement between the Company, New Guinea Gold Limited and New Guinea Gold Corporation (together “NGG”), the Company acquired a 50% interest in the Normanby and Sehulea properties on Normanby Island, Milne Bay Province, PNG. In addition to the 50% interest already owned, an option agreement between the same parties gave the Company the right to earn the remaining 50% interest in the properties by spending \$8,000,000 in exploration and related expenditures by August 20, 2013. Through its ongoing drilling program on the Imwauna prospect and other exploration and development activities on both properties, the Company met its total expenditure obligation almost two years ahead of schedule and in the fourth quarter of 2011, the Company notified NGG that it had exercised its option to acquire the remaining 50% interest in the Normanby and Sehulea properties. On January 5, 2015, 100% ownership of and title to the Normanby and Sehulea properties were transferred to the Company by the Mineral Resources Authority.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

#### Exploration and Evaluation Expenditure

Exploration expenditures during the year ended December 31, 2015 amounted to \$463,672 (2014 - \$580,309).

The cumulative exploration expense on the Company's mineral interest properties is set out in the tables below.

	Papua New Guinea		
	Normanby	Sehulea	Total
	\$	\$	\$
Exploration expense:			
Administration	44,738	16,541	61,279
Consulting	33,222	20,947	54,169
Equipment	110,598	109,818	220,416
Field supplies	1,409	851	2,260
Legal	11,938	11,938	23,876
Transportation	9,273	3,720	12,993
Travel	13,312	8,676	21,988
Wages	52,165	14,526	66,691
Year ended December 31, 2015	276,655	187,017	463,672
Cumulative to December 31, 2014	25,052,975	2,210,325	27,263,300
Cumulative to December 31, 2015	25,329,630	2,397,342	27,726,972

	Papua New Guinea		
	Normanby	Sehulea	Total
	\$	\$	\$
Exploration expense:			
Administration	133,500	60,270	193,770
Camp costs	1,375	38	1,413
Community relations	342	-	342
Consulting	37,614	27,111	64,725
Equipment	79,874	75,273	155,147
Legal	7,449	7,100	14,549
Share-based payments	6,362	2,123	8,485
Transportation	1,044	5,132	6,176
Travel	7,683	2,747	10,430
Wages	100,968	24,304	125,272
Year ended December 31, 2014	376,211	204,098	580,309
Cumulative to December 31, 2013	24,676,764	2,006,227	26,682,991
Cumulative to December 31, 2014	25,052,975	2,210,325	27,263,300

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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Mineral interests at December 31, 2015 comprise \$199,976 for the Normanby mineral interest including \$4,776 of foreign exchange increase and \$16,843 for the Sehulea mineral interest including \$251 of foreign exchange increase. The foreign currency translation is a non-cash item that reflects the movement of the PNG Kina as it relates to the Canadian dollar.

Under PNG mining laws, the PNG government has the right to elect at any time prior to commencement of mining, to make a single purchase of up to 30% equity interest in any mineral discovery arising from the Company's exploration licenses, at a price pro rata to the accumulated exploration expenditure.

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#### **Operations Update and Outlook**

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Due to the current economic uncertainty in general and the downturn in the mining industry in particular, the Company has taken steps to significantly reduce future exploration expenditures and has taken initial steps as described under "Proposed Transaction" to enter into the oil re-refining business. All of the Company's drill rigs (two ODR500 and two ODR1000) have been idled since the end of July, 2013, after drilling was completed at the Sehulea exploration license area (EL 1069) on Weioko and Lantaona Hill prospects. The Company is not planning additional drilling at its exploration properties. Along with reducing general and administrative expenses, the Company has reduced the number of employees at its operations in PNG. The Company has taken steps to further reduce its expenses at the corporate head office including reducing full time equivalent employees. The Company completed a small rock and soil sampling program at Normanby and Sehulea in November 2015. The purpose of the sampling program is to obtain information for further evaluation of Normanby and Sehulea exploration areas. The samples have been sent to a laboratory for further analysis.

#### **Imwauna Prospect**

Since the beginning of 2013, the Company completed 14,039 metres of drilling at the Imwauna prospect and completed the current phase of drilling on April 15, 2013. Since then, there has been no drilling activity at the Imwauna prospect and no further drilling is expected in 2016. All of the assay results for the drilling work completed by April 15, 2013 have been received and published.

#### **Sehulea**

In February 2013, the Company initiated an exploration work program at its Sehulea exploration license area, on Weioko and Lantaona Hill prospects that was completed during the period from May to July, 2013. This program comprised a surface trenching of 250 metres long, geological mapping of about 5 square kilometres, and diamond drilling of three holes, totaling 558.7 metres. The surface sampling conducted during the geological mapping encountered widespread gold and silver mineralization from the Weioko prospect, including 4.40 g/t Au and 5.45 g/t Ag over 11.0 metres and 2.19 g/t Au and 9.48 g/t Ag over 61.0 metres, whereas the drilling at Lantaona Hill prospect and trenching at Weioko prospect intercepted anomalous gold and silver values, for example, 0.19 g/t Au and 8.45 g/t Ag over 37.5 metres (i.e., hole LHH006). No further significant exploration work is expected in the future.

#### **Financial Update**

The Company expects to minimize capital expenditures in 2016 and manage its cash balance by stopping further drilling and scaling down its administrative operations as circumstances dictate, in order to remain in a financially flexible position. The Company has scaled down its operations to reduce operating costs and has substantially reduced its workforce in PNG and at head office. The Company expects to continue in this manner in 2016 and pursue opportunities in the oil re-refining business.

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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#### **Proposed Transaction**

On February 4, 2015, the Company and VeroLube Inc. ("VeroLube") entered into a binding term sheet (the "Term Sheet") providing for the acquisition by the Company of VeroLube, a private company incorporated under the federal laws of Canada (the "Business Combination"). VeroLube is the owner of the patented ReGen™ re-refining process for the refining of used motor oil. In connection with the Business Combination, it was proposed that the Company would consolidate its 131,168,368 issued and outstanding shares on the basis of one new share for ten old, and would then acquire all of the 51,500,301 issued and outstanding common shares of VeroLube in exchange for common shares of the Company on a 1:1 basis by way of a plan of arrangement or other similar transaction. In addition, all warrants of VeroLube would be exchanged for equivalent securities of the Company. If the Business Combination was completed, it was intended that the Company post-completion (the "Resulting Issuer") would change its name to VeroLube Inc. Upon completion, the Resulting Issuer would carry on VeroLube's present business. Closing was to have taken place on or before June 30, 2015 (the "Closing Date"). The Business Combination would constitute a "Reverse Takeover" ("RTO") within the meaning of TSX Venture Exchange (the "Exchange") Policy 5.2. On February 16, 2016, the Company announced that it will not be proceeding with the Business Combination. Trading in the Company's common shares on the Exchange has been halted, and will remain halted until the Exchange's requirements for resumption of trading have been met.

VeroLube was incorporated on February 23, 2012. In 2013, VeroLube purchased from PetroTex Hydrocarbons LLC the patents which form the foundation for the ReGen™ re-refining technology for producing high yields of high quality hydrocarbon products from used oils. VeroLube's business plan includes acquiring an established sector participant involved in the oil collecting/blending/refining business with a view to building a used oil refinery based on its ReGen™ technology.

The Company has been engaged in the exploration of its Normanby and Sehulea properties in Papua New Guinea. In light of the unfavourable equity markets for resource companies, the Company minimized capital expenditures in 2015 and is not currently conducting or planning additional exploration drilling at its properties. Over the past several months, the Company considered various alternatives to increase shareholder value, and believed that the proposed Business Combination with VeroLube represented significant opportunity.

The Company has previously loaned VeroLube approximately \$500,000 (the "VeroLube Loan"), which was repayable on demand at any time after March 30, 2015. The VeroLube Loan bears interest at the rate of 20% per annum, is prepayable without penalty and is convertible into common shares of VeroLube at the rate of \$0.40 per share at any time prior to repayment. The VeroLube Loan is secured against all of VeroLube's present and after-acquired personal property. As partial consideration for the VeroLube Loan, VeroLube has agreed to issue 250,000 common shares to PNG Gold, and to grant PNG Gold a royalty-free, non-exclusive, perpetual license to use the ReGen™ process in Canada, Mexico and Central and South America. It is a condition of the Term Sheet that prior to the Closing Date of the RTO the Company lends VeroLube an additional \$250,000 to maintain its business, and that upon written request, the Company will provide additional loans to VeroLube on terms satisfactory to the Company at its sole discretion.

On April 7, 2015, the Company and VeroLube signed a patent licence agreement ("Patent Licence") granting the Company a non-exclusive, perpetual license to use the ReGen™ process in Canada, Mexico and Central and South America. The Patent Licence requires the Company to make royalty payments that were previously agreed upon by VeroLube and the original patent owner. Under the Patent Licence, the Company is required to pay VeroLube a royalty equal to 2% of gross revenues (net of returns and allowances) generated from the sale of licenced products from plants in Canada until October 29, 2017. The royalty rate is increased to 3% after October 29, 2017. The royalty rate is 1% for gross revenues (net of returns and allowances) generated from the sale of licenced products from plants outside Canada. The Company has not built any plants yet and does not have any revenues from the Patent Licence.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

There are no current non-arm's length parties of the Company who are insiders of VeroLube, or presently hold any direct or indirect beneficial interest in either VeroLube or any of its assets, other than Greg Clarkes, the Chairman and Chief Executive Officer of the Company, who holds an aggregate of 2,500,000 common shares of VeroLube (approximately 5%) and is a director of VeroLube. Mr. Clarkes is resident in British Columbia.

On July 20, 2015, the Company announced that the Closing Date had passed without conclusion of a transaction due to a number of significant developments related to VeroLube that have hampered the due diligence process necessary to finalizing the transaction. The Company has agreed not to call its outstanding loan to VeroLube. In return, VeroLube has agreed to give the Company the non-exclusive rights to its patented and certified ReGen™ used oil re-refining process for the US market. The Company now has the non-exclusive rights to VeroLube's technology for North America, Central America and South America. To-date, the Company has not demanded repayment of the VeroLube Loan.

### Annual and Fourth Quarter Financial Results

#### Variance Analysis

The following table sets forth selected (Income)/Expense items that have significant variances between the three months and years ended December 31, 2015 and 2014.

	Three months ended		Year ended	
	December 31,		December 31,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Exploration	172,562	55,879	463,672	580,309
General and administration	76,946	64,158	322,589	363,620
Professional fees	54,121	47,312	293,000	257,381
Salaries and benefits	236,125	244,831	966,220	1,167,815
Share-based payments	-	-	-	67,525
Other (income) expense	1,391,438	(163,025)	1,242,456	(86,830)

Exploration – Since March 31, 2014, the Company has scaled down its operations to reduce operating costs and has reduced its workforce in PNG. In November 2015, the Company completed a small rock and soil sampling program at Normanby and Sehulea.

General and administration – The decrease in 2015 was due to lower expenditures for telephone, office supplies and services, and meals and entertainment as the Company continued to reduce costs at head office.

Professional fees – Professional fees depend on the timing of the services being rendered and will vary from period to period. The increase in 2015 was due to the services of external consultants and legal counsel related to the proposed Business Combination.

Salaries and benefits – The decrease in 2015 was due to the reduction of full time employees at the corporate head office.

Share-based payments – Share-based payments were fully amortized in the third quarter of 2014.

Included in other (income) expense was \$192,503 of interest income for the year ended December 31, 2015 compared to \$63,312 in the same period in 2014. The increase was primarily due to interest accrued on the VeroLube Loan. The Company recorded an impairment loss of \$1,435,648 for the year ended December 31, 2015 (\$nil in 2014). Details of the impairment loss are provided under "Selected Annual Financial Information" in this MD&A.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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#### Selected Annual Financial Information

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The following table summarizes selected financial data reported by the Company for the periods indicated. The information set forth in the table should be read in conjunction with the audited consolidated financial statements and notes, prepared in accordance with IFRS for the periods indicated.

	Year ended December 31,		
	2015	2014	2013
			(restated)
	\$	\$	\$
<b>Consolidated Statements of Comprehensive Loss:</b>			
Expense	2,130,988	2,543,319	8,583,755
Other (income) expense	1,242,456	(86,830)	7,813,311
Loss before income taxes and loss for the year	3,373,444	2,456,489	16,397,066
Other comprehensive (income) loss	(15,812)	124,304	1,282,764
Total comprehensive loss for the year	3,357,632	2,580,793	17,679,830
Loss per share – basic and diluted	0.03	0.02	0.13
<b>Consolidated Statements of Financial Position:</b>			
Mineral interests	216,819	211,792	200,000
Total assets	1,686,193	4,974,911	7,376,977
Total liabilities	1,078,554	1,009,640	906,923

Expense – The decrease in total expense was mainly due to the reduction of drilling activities in PNG and reduction of full time employees and general and administration costs at the head office.

Other expense – 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, 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, Investment in VeroLube 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 (there were no indicators of impairment as at December 31, 2014).

	Year ended December 31, 2015
	\$
VeroLube loan	747,006
Investment in VeroLube	45,880
Accounts receivable from VeroLube	13,533
Computer, equipment and furniture	34,132
Drilling equipment	595,097
Total impairment loss	1,435,648

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

In 2013, other expense was primarily the impairment loss recognized on property and equipment and mineral interests held in PNG.

Other comprehensive income (loss) – The fluctuation between periods was due to the exchange difference on translating the foreign operation balances and results from its functional currency (PNG Kina) into the reporting currency (Canadian dollar) as the exchange rate fluctuated from period to period. The fluctuation is also related to the fair value movements of available-for-sale investments. Unrealized gains and losses are recognized in other comprehensive income (loss). When the losses are considered other than temporary, they are reclassified to net loss as an impairment loss.

Mineral interests – Mineral interests include the acquisition cost on the exploration licenses, foreign exchange gains or losses less impairment loss.

Total assets – The decrease in total assets was due to cash used during the year and impairment loss recognized on property and equipment, loans and investments.

### Summary of Quarterly Financial Results

The following table provides selected financial information of the Company for each of the last 8 quarters presented in accordance with IFRS. Certain of the selected financial information prior to the quarter ended March 31, 2014 have been restated to reflect the effects of the voluntary accounting policy change as reported in the Company's MD&A for the year ended December 31, 2014.

	For the Quarters Ended			
	December 31, 2015 \$	September 30, 2015 \$	June 30, 2015 \$	March 31, 2015 \$
Financial Results:				
Expense	542,686	502,757	559,167	526,378
Other (income) expense	1,391,438	(35,642)	(35,940)	(77,400)
Net loss	1,934,124	467,115	523,227	448,978
Basic and diluted loss per share	0.01	0.00	0.00	0.00

	For the Quarters Ended			
	December 31, 2014 \$	September 30, 2014 \$	June 30, 2014 \$	March 31, 2014 \$
Financial Results:				
Expense	406,149	515,202	730,189	891,779
Other (income) expense	(163,025)	127,086	(8,969)	(41,922)
Net loss	243,124	642,288	721,220	849,857
Basic and diluted loss per share	0.00	0.00	0.01	0.01

After March 31, 2014, the Company began to reduce expenses, particularly exploration expenses, due to the current economic uncertainty in general and the downturn in the mining industry in particular. The Company continued to reduce expenses at its head office as well. During the quarter ended September 30, 2014, the VeroLube Loan was impaired and the Company recorded an impairment charge of \$141,611, which was subsequently reversed during the quarter ended December 31, 2014. Other income primarily relates to interest accrued on the VeroLube Loan. During the quarter ended December 31, 2015, an impairment loss of \$1,435,648 was recognized on receivables, loans, investments and property and equipment.

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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#### **Liquidity, Capital Resources, Commitments and Contingencies**

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##### **Working Capital and Cash**

Cash and cash equivalents decreased by \$1,942,160 during the year ended December 31, 2015. The decrease is due to \$1,829,547 cash used in operations and \$112,613 cash used in financing activities for advances made under the VeroLube loan.

Cash and cash equivalents decreased by \$514,658 during the three months ended December 31, 2015. The decrease is due to cash used in operations (approximately \$469,000), which includes exploration and evaluation expenditures, and cash used in financing activities for advances made under the VeroLube loan (approximately \$46,000).

As at December 31, 2015, the Company had working capital deficiency of \$164,448 comprised of cash and cash equivalents of \$832,747, accounts receivable of \$12,165 and prepaid expenses of \$69,194 offset by accounts payable and accrued liabilities of \$1,078,554. Based on the Company's current financial position and estimated cash flows for the next 12 months, the Company does not have sufficient working capital available to meet its expected cash expenditures over the next 12 months. However, actual results could be materially different than those expected or budgeted and the Company expects to continually monitor spending and assess results on an ongoing basis and make appropriate changes to expenditures as required.

##### **Going Concern**

While the Company's consolidated financial statements for the year ended December 31, 2015 have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future, there are events and conditions that cast significant doubt on the validity of that assumption. The Company has not yet achieved profitable operations and expects to incur further losses in the development of its business. For the year ended December 31, 2015, the Company reported a comprehensive loss of \$3,357,632 and as at December 31, 2015, had an accumulated deficit of \$69,986,586. The Company has not generated revenues from operations and expects to enter into the oil re-refining business. The Company is dependent on equity financings to fund its operations. The Company expects to minimize operating and capital expenditures in 2016 and manage its cash balance by scaling its exploration and administrative operations as circumstances dictate, in order to remain in a financially flexible position. Management of the Company believes that the current level of funds is not sufficient to pay for expected cash expenditures over the next 12 months. Management continues to explore alternative financing sources in the form of equity, debt or a combination thereof; however, the current economic uncertainty and financial market volatility make it difficult to predict success. Due to the current low interest rate environment, interest income is not expected to be a significant source of income or cash flow. Management intends to monitor spending and assess results on an ongoing basis and make appropriate changes as required. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. The Company's consolidated financial statements for the year ended December 31, 2015 do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary should the going concern assumption be inappropriate, and such adjustments could be material.

##### **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 \$63,540,233 and no long-term debt as at December 31, 2015. 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

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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future development of the business. Planning, annual budgeting, monitoring, 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 expects to 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.

#### **Mineral Properties Obligation**

As discussed in the "Projects" section of this MD&A, 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 \$136,000. The Company is awaiting the results of its Sehulea exploration license renewal application. The two year term of the Normanby exploration license will be expiring 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 \$195,000.

The Company completed a small rock and soil sampling program at Normanby and Sehulea in November 2015. The purpose of the sampling program is to obtain information for further evaluation of these exploration areas. The samples have been sent to a laboratory for further analysis. The current terms of the exploration licenses and expenditure commitments, which have been met are as follows:

Exploration License	Expiry date	Expenditure Commitment
Normanby	April 24, 2016	\$164,000
Sehulea	January 5, 2016	\$103,000

#### **Contractual Obligations**

On February 4, 2015, the Company entered into a 14 month lease agreement for its new corporate head office that has a remaining commitment of \$43,303 in 2016.

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.

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#### **Off-Balance Sheet Arrangements**

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The Company has no off-balance sheet arrangements.

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#### **Transactions with Related Parties**

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

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

In addition to the related party transactions noted below, 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.

	Year ended December 31,	
	2015	2014
Transactions with Key Management Personnel	\$	\$
Salaries to Key Management	697,875	971,378
Share-based payments to Key Management	-	71,687
	697,875	1,043,065

For the year ended December 31, 2015, salaries to Key Management included fees of \$nil (2014 - \$153,580) that were paid to a company that was controlled by the Company's former Chief Operating Officer ("COO").

On July 7, 2014, the Company entered into an agreement with VeroLube and its subsidiary, VeroLube Bowden Plant Inc. to loan \$140,000 to VeroLube Bowden Plant Inc. The Company's Chief Executive Officer and director (Greg Clarke) is also a director of VeroLube Inc. The Company advanced the \$140,000 on July 9, 2014 to assist with plant and property lease payments. The loan bore interest at 5% per annum, was unsecured and matured on September 1, 2014. As at September 30, 2014, VeroLube had not repaid the loan plus accrued interest of \$1,611 and was in default in accordance with the terms of the loan agreement. The Company performed an impairment analysis of this outstanding loan and determined that the full amount outstanding including accrued interest was impaired. As a result, the Company recognized an impairment loss for the outstanding amount in the statement of comprehensive loss for the three and nine months ended September 30, 2014. The impairment was subsequently reversed as a result of the \$500,000 secured loan agreement entered into on November 28, 2014.

On November 28, 2014, The Company and VeroLube entered into a new loan agreement for \$500,000 ("VeroLube Loan") that includes the previous \$140,000 loaned. Under the terms of the agreement, the VeroLube Loan shall be repayable on that day which falls 10 calendar days after the date of receipt by VeroLube of written demand made by the Company. The Company shall not make demand for the repayment of the VeroLube Loan before March 30, 2015 ("Maturity Date"). To-date, the Company has not made any demands for repayment. At any time and at the option of the Company, all or any part of the VeroLube Loan may be converted, in whole or in part, into common shares in the capital of VeroLube at a rate equal to the conversion price of \$0.40 per share (the "Conversion Feature"). Interest will accrue at the rate of 20% per annum, calculated daily and compounded monthly and shall be payable by VeroLube to the Company on the Maturity Date. In addition, VeroLube has given the following additional consideration for the VeroLube Loan:

- (a) issued to the Company 250,000 common shares of VeroLube ("Investment in Verolube Inc.");
- (b) granted to the Company a royalty-free, non-exclusive, perpetual license to use VeroLube's patented ReGen™ process in Canada, Mexico and Central and South America; and
- (c) granted to the Company security interest against all of VeroLube's present and after-acquired personal property.

For accounting purposes, the Company estimated the fair value of each of the instruments in the VeroLube Loan. The fair value of the loan receivable upon initial recognition was determined to be \$462,500, which considered the length to maturity of the loan, the collateral available to the Company and the risk of repayment default.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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The loan was accreted using the effective annual interest rate of 46% such that the carrying amount equaled the principal amount of \$500,000 as at March 31, 2015. The amortized cost of the loan was \$471,829 as at December 31, 2014.

The fair value of the Investment in Verolube Inc. was estimated to be \$37,500 based on \$0.15 per share, which was adjusted to take into account changes in market conditions that affected a composite of comparable publically traded companies. The estimated fair value of the Conversion Feature was a nominal amount based on the Black-Scholes valuation model and therefore, no value was allocated to the Conversion Feature. No value was allocated to the perpetual license for the non-exclusive use of the ReGen™ technology because the technology has never been in commercial production and therefore, it was not possible to reliably estimate the future cash flows.

Under the terms of the Term Sheet, the Company has agreed to lend VeroLube an additional \$250,000 to maintain its business, and that upon written request, the Company will provide additional loans to VeroLube on terms satisfactory to the Company at its sole discretion. During the year ended December 31, 2015, \$112,613 of the additional \$250,000 was loaned to VeroLube. VeroLube has agreed to issue 55,875 common shares to the Company as additional consideration for the loans.

On July 20, 2015, the Company announced that the Closing Date had passed without conclusion of a transaction due to a number of significant developments related to VeroLube that have hampered the due diligence process necessary to finalizing the transaction. The Company has agreed not to call its outstanding loan plus accrued interest to VeroLube. In return, VeroLube has agreed to give the Company the non-exclusive rights to its patented and certified ReGen™ used oil re-refining process for the US market. The Company now has the non-exclusive rights to VeroLube's technology for North America, Central America and South America.

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 January 1, 2014	-
Fair value of funds advanced	462,500
Accretion	9,329
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	-

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### Financial Instruments and Risk Management

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The Company's financial instruments at December 31, 2015 include cash and cash equivalents, accounts receivable, VeroLube Loan, Investment in NGG, Investment in COY, Investment in Verolube Inc., and accounts payables and accrued liabilities.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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The Company holds 26,855,994 shares of NGG, initially valued at \$3,027,664. During the year ended December 31, 2011, as a result of the NGG shares trading below the cost for a prolonged period of time and the decline being significant, management assessed the investment in NGG shares as impaired. Accordingly an impairment loss of \$1,684,864 was transferred from accumulated other comprehensive loss to net loss at December 31, 2011.

During the year ended December 31, 2012, the Company recognized a further impairment loss of \$1,342,800, reducing the value to \$nil. Based on the December 31, 2013 market price on the TSX Venture Exchange, the Company recorded an unrealized gain of \$134,280 in other comprehensive loss as a result of the change in fair value. On May 9, 2014, NGG was issued a cease trade order and it has not traded on the TSX Venture exchange since then. Given the prolonged downturn of the junior mineral exploration market and NGG's current market position, management assessed the investment in NGG shares as permanently impaired. As at December 31, 2014, the unrealized gain of \$134,280 in other comprehensive income was reversed.

The Company holds 3,827,646 shares of Coppermoly Ltd. ("COY"), initially valued at \$440,102. During the year ended December 31, 2012, as a result of the COY shares trading below cost for a prolonged period of time and the decline being significant, management assessed the investment in COY shares as impaired; accordingly a full impairment loss of \$440,102 was recognized in net loss of which \$269,258 of the loss was transferred from accumulated other comprehensive loss to net loss at December 31, 2012. Changes in fair value, based on the market price on the Australian Stock Exchange, are recorded in other comprehensive income. The Company recorded an unrealized gain of \$72,725 as at December 31, 2013, an unrealized loss of \$38,276 as at December 31, 2014 and an unrealized loss of \$11,483 as at December 31, 2015.

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 the Investment in Verolube Inc. is discussed above under "Transactions with Related Parties." The fair value of the VeroLube Loan upon initial recognition was determined to be \$575,113, which considered the length to maturity of the loan, the collateral available to the Company and the risk of repayment. 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 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 is minimal.

**Currency risk** – currency risk arises due to fluctuations in the exchange rates. The Company's equity financings are sourced in Canadian dollars, but the normal day-to-day exploration expenditures are incurred in Papua New Guinea Kinas and Australian dollars, which the Company purchases with Canadian dollars. At this time there are no currency hedges in place. A weakening of the Canadian dollar or a strengthening of the Kina and Australian dollar could have an adverse impact on the amount of foreign exchange gain/loss and comprehensive loss on revaluation.

## PNG Gold Corporation

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

As at December 31, 2015, the Company is exposed to currency risk through the following assets and liabilities denominated in foreign currency:

	Foreign currency	Exchange rate	Canadian dollar
Cash – Papua New Guinea Kina	29,860	0.4615	13,780
Cash – Australian Dollar	15,266	1.0124	15,455
Accounts payable – Papua New Guinea Kina	(1,399,044)	0.4615	(645,659)
			(616,424)

A 10% change in the exchange rate of the Papua New Guinea Kina against the Canadian dollar would affect other comprehensive income (loss) by approximately \$63,000.

A 10% change in the exchange rate of the Australian dollar against the Canadian dollar would affect other comprehensive income (loss) by approximately \$2,000.

**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 2015, the Company received \$19,327 of interest income from banks. A 1% change in interest rate would affect income (loss) before tax of approximately \$8,000.

**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, 2015, the Company has \$832,747 in cash and cash equivalents, \$1,078,554 in current liabilities and no long term liabilities. Please see "Going Concern" under Liquidity, Capital Resources, Commitments and Contingencies in this MD&A.

The Company's current liabilities arose as a result of exploration and evaluation expenditures for its projects, other corporate expenses and accruals. Payment due dates for exploration and evaluation expenditures and 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 \$2,000 before tax. The ability of the Company to finance its exploration activities on its exploration and evaluation assets and the future profitability of the Company are directly related to the market price of gold and silver. The Company monitors the commodity prices to determine the appropriate course of business action the Company should undertake.

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#### Outstanding Share Data

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As at March 15, 2016, the following shares are outstanding:

- Authorized: Unlimited common shares without par value  
Unlimited number of preferred shares without par value
- Issued and outstanding: 131,168,368 common shares
- Stock options outstanding and fully vested:
  - 3,475,000 with exercise price of \$0.50 per option and an expiry date of June 7, 2016
  - 100,000 with exercise price of \$0.57 per option and an expiry date of October 12, 2016
  - 3,675,000 with exercise price of \$0.35 per option and an expiry date of August 27, 2017

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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On February 16, 2016, the Company announced that it intends to consolidate its 131,168,368 issued and outstanding common shares on the basis of one new for ten old (the "Consolidation"). Upon completion of the Consolidation, 13,116,837 common shares will be issued and outstanding. The Consolidation is being undertaken in order to provide the Company with a more readily financeable capital structure. The Consolidation is subject to acceptance from the Exchange.

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#### **Critical Accounting Estimates**

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The preparation of the Company's consolidated financial statements for the year ended December 31, 2015 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. The 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.

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 following:

- (i) The carrying value and the recoverability of property and equipment and exploration and evaluation assets

The application of the Company's accounting policy for identifying impairment indicators under IFRS requires judgement. If indicators are identified, the determination of recoverable amount of property and equipment and capitalized exploration and evaluation assets requires judgement in determining whether future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is recognized in loss in the period that the new information becomes available.

- (ii) The carrying value of loan receivable

The fair value of the loan receivable is based on the length to maturity of the loan, the collateral available to the Company, the risk of repayment default and other consideration exchanged. Changes in assumptions, valuation of other consideration exchanged or new information becoming available, can materially affect the fair value of the loan receivable. The fair value of other consideration exchanged is based on a combination of the Black-Scholes valuation model and comparisons to a composite of comparable publicly traded companies. The Black-Scholes valuation model incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimates.

VeroLube granted to the Company a royalty-free, non-exclusive, perpetual license to use VeroLube's patented ReGen™ process in North America, Central America and South America. No value was allocated to the perpetual license for the non-exclusive use of the ReGen™ technology because the technology has never been in commercial production and therefore, it was not possible to reliably estimate the future cash flows.

#### Critical accounting judgments

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

- (i) The analysis of the functional currency for each entity of the Group - In accordance with IAS 21, the Effects of Changes in Foreign Exchange Rates, management determined that the functional currency of Normanby PNG is the Papua New Guinea Kina and for all other entities within the Group, the functional currency is the Canadian dollar, as these are the currencies of the primary economic environment in which the companies operate.
- (ii) The determination of impairment of available-for-sale financial assets. The Company determined that certain of its investments were impaired during the years ended December 31, 2015 and 2014 and recognized impairment losses on its investments. As a result of changes in fair values at December 31, 2015, an unrealized gain of \$nil (2014 - \$134,280) for the NGG shares in other comprehensive income was reversed and an unrealized loss of \$11,483 (2014 - \$38,276) for the COY shares was recorded in other comprehensive income.

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#### Recent Accounting Pronouncements

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

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.

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.

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#### Risks and Uncertainties

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The Company's expectation to enter into the oil re-refining business and its business in gold exploration, development and mining involves a significant degree of risk. The risk factors set out below should be considered. It should be noted that the risks discussed below are not exhaustive and that other risks may apply.

##### Financing ability

The Company's ability to enter into the oil re-refining business will be largely reliant on its continued attractiveness to equity investors. The Company will incur operating losses as it continues to expend funds to enter into the oil re-refining business. There is no guarantee that the Company will be able to successfully enter into the oil re-refining business. Furthermore, should the Company require additional capital, failure to raise such capital could result in

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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delay or indefinite postponement of the Company's business activities. From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards.

#### Dependence on key personnel

The Company depends on a relatively small number of key qualified personnel, key senior management and other employees. As the Company's business grows, the Company may recruit additional management and other personnel. There is no assurance that the key qualified personnel will continue to provide services to the Company or will honour the agreed terms and conditions of their employment or contracts. Any loss of key personnel or failure to recruit and retain personnel for the Company's future operations and development could have a material adverse effect on the Company's business and results of operations. The Company does not have key person insurance on these individuals.

#### Volatile stock price

Trading in the Company's shares has been temporarily halted pending the results of its Proposed Transaction. The stock price of the Company is expected to be highly volatile when its shares resume trading and will be drastically affected by operating results. The Company cannot predict the results of its future business activities. The results of these activities will inevitably affect the Company's decisions related to further programs at any of the properties that the Company may hold in the future and will likely trigger major changes in the trading price of the Company's shares.

#### Potential conflicts of interest

Some of the directors or officers of the Company are also directors, officers and/or promoters of other reporting and non-reporting issuers. Situations may arise where the directors and/or officers of the Company may be in competition with the Company. Any conflicts will be subject to and governed by the law applicable to directors' and officers' conflicts of interest. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interest of the Company.

#### No history of mineral production

The Company's properties are at the exploration stage only. There is no assurance that commercial quantities of minerals will be discovered at any of the existing properties. Even if commercial quantities of minerals are discovered, there can be no assurance that any of the properties will ever be brought to a stage where mineral resources can profitably be produced thereon. Factors which may limit the ability of the Company to produce mineral resources from its properties include, but are not limited to, the price of the mineral resources, availability of additional capital and financing and the nature of any mineral deposits.

#### Operating in foreign jurisdictions

The Company's mineral properties are located in PNG. Its foreign mining investments are subject to the risks normally associated with the conduct of business in foreign countries. The occurrence of one or more of these risks could have a material and adverse effect on the Company's future cash flows and earnings (if any), results of operations and financial condition. Risks may include, among others, labour disputes, invalidation of governmental orders and permits, corruption, uncertain political and economic environments, sovereign risk, war, civil disturbances and terrorist actions, arbitrary changes in laws or policies of particular countries, the failure of foreign parties to honour contractual relations, corruption, foreign taxation, delays in obtaining or the inability to obtain necessary governmental permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on gold exports, instability due to economic underdevelopment, inadequate infrastructure and increased financing costs. In addition, the enforcement by the Company of its legal rights to exploit its properties may not be recognized by the government of PNG or by its court system. These risks may limit or disrupt the Company's operations, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization or expropriation without fair compensation.

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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The economy and political systems of PNG should be considered by investors to be less predictable than those in Canada. The possibility that the current, or a future, government may adopt substantially different policies, take arbitrary action which might halt production, extend to the re-nationalization of private assets or the cancellation of contracts, the cancellation of mining and exploration rights and/or changes in taxation treatment, cannot be ruled out. If any such event were to take place, that could result in a material and adverse effect on the Company's results of operations and financial condition.

#### Uninsured risks

Exploration, development and production of mineral properties involve numerous risks, and in particular, unexpected or unusual geological operating conditions including rock bursts, cave-ins, fire, flooding, earthquakes, and political and social instability. These risks can result in, among other things, damage to and destruction of mineral properties, personal injury, environmental damage, monetary losses and legal liability. The Company has maintained insurance within ranges of coverage consistent with industry practice in PNG. However, in line with industry practice in PNG, the Company has elected not to insure against certain risks as a result of high premiums or other reasons or has agreed to policy limits on certain coverage that may not cover all potential liabilities for similar reasons. The Company cannot provide assurance that it will be able to maintain its current insurance coverage at economically reasonable premiums (or at all) in the future, or that any coverage that the Company obtains will be adequate and available to cover the extent of any claims against the Company. In the event that the Company suffers a significant liability for which the Company is not insured or for which the Company's insurance coverage is inadequate to cover the entire liability, such liabilities could reduce or eliminate any future profitability and result in increasing costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

#### Currency fluctuations

The Company's operations in PNG make it subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. The Company reports its financial results in Canadian dollars. As the exchange rates between the PNG Kina fluctuate against the Canadian dollar, the Company will experience foreign exchange gains or losses. The Company does not use an active hedging strategy to reduce the risk associated with currency fluctuations.

#### No dividends

Any payments of dividends will be dependent upon the financial requirements of the Company to finance future growth, the financial condition of the Company and other factors which the Company's board of directors may consider appropriate in the circumstances. It is unlikely that the Company will pay dividends in the immediate or foreseeable future.

#### Risk management and internal control systems.

The Company's directors together with its senior management are responsible for overseeing the Company's internal control policies and procedures. The Company has established risk management and internal control systems consisting of policies, procedures and risk management methods that the Company believes are appropriate for the Company's business operations. However, due to the inherent limitations in the design and implementation of these systems, there is a risk that these systems will not be sufficiently effective in identifying and preventing a deficiency in internal controls. In addition, as some of the risk management and internal control policies and procedures are relatively new, the Company may need to establish and implement additional policies and procedures to further improve the Company's systems from time to time. Since the Company's risk management and internal controls depend on implementation by Company employees, there is a risk that such implementation will involve human errors or mistakes. If the Company fails to implement its policies and procedures in a timely manner, or fails to identify risks that affect the Company's business, its business, results of operations and financial condition could be materially and adversely affected.

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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The following are risks more specifically associated with the Company's operations in PNG:

(a) Legal system

PNG has a less developed legal system than Canada, which may result in risks such as: (i) potential difficulties in obtaining effective legal redress in the courts of PNG, whether in respect of a breach of law or regulation, or in an ownership dispute; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. The commitments of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licenses and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed.

(b) Civil unrest

There have been instances of civil unrest within PNG. Although the Company believes that the risk of civil insurrection in PNG is low there can be no assurance that the people of these regions will not disrupt operations at the properties in the future or impact the ability of the Company to develop the properties if warranted.

(c) Government stability

The Company's exploration operations are subject to political, economic and other uncertainties, including the risk of civil rebellion, expropriation, nationalization, renegotiation or nullification of existing contracts, mining licenses and permits or other agreements, changes in laws or taxation policies, currency exchange restrictions, changing political conditions and international monetary fluctuations. Future actions of the PNG government concerning its economy or the operation and regulation of nationally important facilities such as mines could have a significant effect on the Company. No assurances can be given that the properties will not be adversely affected by future developments in PNG. Fiscal and tax policy in PNG can be uncertain and subject to sudden changes. For example, the PNG Government imposed and later replaced a 4% mining levy and 15% withholding tax on interest in 1998 and 1999. In addition to the national PNG Government, PNG has a system of 19 provincial level governments, which are funded almost entirely by direct grants from the national PNG Government. In the past, there have been disagreements between the PNG Government and the provincial level governments of PNG, primarily in relation to power sharing and revenue arrangements.

(d) PNG land policy

Since 1978, the PNG Government has maintained a policy of holding an equity participation option of up to 30% in mining projects located in PNG. This equity has been purchased on a historical or sunk cost basis. In 1992, the previous PNG Government announced a decision to increase the PNG Government's equity interest in an existing gold project at Porgera and renegotiated that interest from 10% to 25%. Although the other joint venturers in the Porgera project resisted this move, a price was ultimately negotiated and accepted by all parties. The Company is not aware of any current intention on the part of the PNG Government to seek equity participation in the properties. No assurance can be given that the PNG Government will not seek to acquire equity in either of the properties or other properties in the future. In the past, the PNG Government has taken equity only in major mining projects of national significance. Approximately 97% of land in PNG is held under a land tenure system, the nature and terms of which vary considerably throughout the country. In general, land held under such tenure cannot be alienated and is almost entirely communally owned. Title to most land in PNG has not been recorded or registered and there has been little surveying. As a result, title to land (in Western legal terms) is often unclear. Disputes over land ownership are common, especially in the context of resource developments. Identifying all of the landowners, as well as, structuring compensation arrangements that are both fair and acceptable to all of them can be difficult. The Company believes that the

## **PNG Gold Corporation**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2015

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satisfactory resolution of local landowner concerns is essential to exploration in PNG and believes that it enjoys sound relationships with the affected landowners. The Company has always been committed to spending considerable time, effort and expense in order to resolve landowner issues, but there can be no assurance that disruptions arising out of landowner dissatisfaction will not occur.

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#### **Qualified Person**

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All technical information about the Company's mineral properties contained in this MD&A has been prepared under the supervision and approval of Lorne Warner, PGeo, a consultant to the Company, who is a "qualified person" within the meaning of National Instrument 43-101.

**Gen III Oil Corporation (formerly PNG Gold Corporation)**

MANAGEMENT DISCUSSION AND ANALYSIS  
For the three months ended March 31, 2017

As at May 24, 2017



# Gen III Oil Corporation (formerly PNG Gold Corporation)

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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# Gen III Oil Corporation (formerly PNG Gold Corporation)

## MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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May 24, 2017

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### Introduction

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Gen III Oil Corporation (formerly PNG Gold Corporation) (the “Company”) is incorporated under the laws of British Columbia, Canada and is extra provincially registered in Alberta.

The Company currently owns the ReGen™ re-refining technology; and either has, or is in the process of, transferring ownership of the various ReGen™ patents to the Company. On April 17, 2017, the Company submitted a change of business (“COB”) application to the TSX Venture Exchange to change its principal business activities to an industrial oil company. On May 11, 2017, the Company changed its name to Gen III Oil Corporation. The Company’s shares are listed on the TSX Venture Exchange and trade under the symbol “GIII.”

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

This Management Discussion & Analysis (“MD&A”) of the Company has been prepared by management as of May 24, 2017 and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the unaudited condensed consolidated interim financial statements of the Company for the three months ended March 31, 2017, which have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board effective for the Company’s reporting period ending December 31, 2017. All monetary amounts referred to herein are in Canadian dollars unless otherwise stated.

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

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### Forward Looking Information

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This MD&A contains forward-looking statements and forward-looking information (collectively, “forward-looking statements”) within the meaning applicable to Canadian legislation. These statements relate to future events or the future activities or performance of the Company, statements that involve financial projections, substantial known and unknown risks and uncertainties, certain of which are beyond the control of the Company. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate, plans and similar expressions, or which by their nature refer to future events. Forward-looking statements include, but are not limited to, the quantity and quality of the re-refined products that might be produced; the cost of construction of the first ReGen™ re-refinery; raising sufficient capital to support the business plan; the estimated operating costs for the refinery; the market for the finished products; negotiating off-take agreements for those finished products; and the anticipated annual recurring revenue and EBITDA derived from those operations, statements regarding expectations to enter into the oil re-refining business, expectations to minimize capital expenditures and manage cash balances by scaling operations as circumstances dictate.

Forward-looking information is subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking information including, among other things, delays in obtaining or failure to obtain required governmental, environmental or other project approvals, changes in national or local government legislation or regulations regarding environmental factors, royalties, taxation or foreign investment, political or economic instability, terrorism, inflation, changes in currency exchange rates, fluctuations in commodity prices, delays in the development of projects, shortage of personnel with the requisite knowledge and skills, dependency on equity market financings to fund programs. In addition, forward-looking information is based on various assumptions including, among other things, the expectations and beliefs of management, the assumed

## Gen III Oil Corporation (formerly PNG Gold Corporation)

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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long-term price of various commodities, the availability of permits and access to financing, equipment and labour. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements. Except as required under applicable securities legislation, the Company undertakes no obligation to publicly update or revise forward-looking information, whether as a result of new information, future events or others.

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## Projects

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### Re-refining Used Oil

On July 7, 2014, the Company entered into an agreement with VeroLube Inc. and its subsidiary, VeroLube Bowden Plant Inc. (collectively, "VeroLube") to loan \$140,000 to VeroLube Bowden Plant Inc. On November 28, 2014, The Company and VeroLube entered into a new loan agreement for \$500,000 ("VeroLube Loan") that included the previous \$140,000 loaned. 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, 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.

The Company currently owns the ReGen™ re-refining technology; and either has, or is in the process of, transferring ownership of the various ReGen patents to the Company.

The Company believes the ReGen™ technology was the first in the world to re-refine used motor oil ("UMO") to produce Group III base lubricating oil (synthetic grade oil) in marketable quantities. Group III base lubricating oil sells for approximately 50% more than current re-refinery produced Group II products. The ReGen™ process utilizes common technologies in use throughout the world, but in a unique configuration and at specific temperature and pressure settings.

The patented ReGen™ re-refining technology:

- (a) Has been successfully tested in a 5 barrel per day prototype plant that ran for several thousand hours proving the technology from concept to a full working scale model.

## Gen III Oil Corporation (formerly PNG Gold Corporation)

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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- (b) Was extensively reviewed by the US Department of Energy's independent consultant Oakridge Laboratories, who reported the ReGen™ technology is derived from proven existing technologies and can successfully produce a re-refined Group III synthetic grade base lubricating oil from UMO at a lower cost than current refining operations.
- (c) Was subsequently reviewed by Wood Group Mustang Engineering and Tetra Tech Engineering who independently concluded the ReGen™ technology is technically sound and commercially viable.
- (d) Was further investigated by ILF, Stantec Engineering ("Stantec") and WSP Canada Inc. ("WSP") who independently updated a preliminary construction cost estimate prepared by Mustang to reflect the cost of construction of a refinery if built in a specifically selected site in Alberta. The average all-in construction price as estimated by ILF, Stantec and WSP Engineering is approximately \$90 million for a 2,800 bpd plant.

In December 2016, the Company entered into contracts for engineering pre-FEED studies with Stantec and WSP to validate the previously modelled second stage design capability of the ReGen™ technology to produce 45% to 53% Group III base oil from UMO feedstock in addition to Group II base oil, ultralow sulphur diesel fuel, and asphalt flux from the other two stages in the ReGen™ process.

On March 29, 2017, the Company announced the following conclusions, subject to the assumptions and parameters set out therein, were reached in the engineering reports from Stantec and WSP:

- (a) The ReGen™ UMO re-refining process is technically sound. Stantec's report concluded "Having completed the Pre-FEED study and based upon the samples provided, it is Stantec's opinion that PNG's ReGen™ technology is technically viable and capable of producing high quality base oils meeting requirements of API 1509 Groups II and III. Furthermore, Stantec has concluded, after having conferred with the major manufacturers of the process equipment required to construct and operate the proposed 2,800 barrel per day re-refinery, that the project is feasible as proposed."

Similarly, WSP concluded "Having completed the pre-FEED study it is WSP's opinion that PNG's ReGen™ refining technology process is technically sound and construction and operation of the proposed re-refinery should provide finished products equivalent or greater than those contained in previous engineering studies."

- (b) The finished product stream generated from a ReGen™ re-refining process ("ReGen™") is reported to be of high quality and high quantity. Stantec reported 75% recovery of Group II and Group III base lubricating oils, of which 55% of the plant output was estimated to be Group III base oil. WSP's preliminary computer modeling showed 78% recovery of Group II and Group III base lubricating oil.
- (c) The preliminary operating costs using current market prices were projected by WSP to be 7% of the Company's projected revenue.
- (d) The capital cost of constructing a ReGen™ re-refinery in Bowden, Alberta was projected by Stantec to be approximately \$90 million\*. The numerous cost advantages associated with existing infrastructure in addition to the large storage tank farm located at the Bowden site were highlighted in the WSP report. Namely, rail and truck loading and unloading; existing concrete foundations; existing pipe rack; existing water supply; existing gas and electricity utilities; and the space to facilitate a modular construction strategy.

From additional research conducted by the Company, it was further determined:

- (a) Only 50% of the UMO collected in North America is estimated to be actually re-refined into Group I and Group II base lubricating oils, with the balance primarily being sold as low grade burner fuel.

## Gen III Oil Corporation (formerly PNG Gold Corporation)

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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- (b) Based on current prices, the cost of feedstock supply to the Bowden plant would represent 28%\* of the projected revenue when operating at steady state production.
- (c) Market research shows a significant demand for Group III oil in Canada and the United States.
- (d) The current economic conditions in Alberta provide an excellent opportunity to attract quality fabrication contractors, with short production lead times, to manufacture the plant equipment modules at very attractive pricing.
- (e) The current exchange rate between the Canadian and US dollar provides a significant lift to the profitability of a Canadian built refinery.
- (f) Carbon credits available in Alberta should provide substantial additional revenue for the Company.
- (g) The patents that are granted or are pending by, or for, the Company are considered to be current and valid.
- (h) Based on the project product output contained in the engineering reports and the current commodity pricing, in the first full year of steady state production following commissioning of the first ReGen™ re-refinery, the Company projects recurring annual revenue of approximately \$159 million. This revenue is projected to produce recurring annual EBITDA of approximately \$100 million\*. EBITDA is a non GAAP measure\*.

As a result of these reports and research, the Company's management made the following recommendation to the Company's Board of Directors. The Board of Directors of PNG accepted all of management's recommendations and the Company is proceeding accordingly.

The Company submit a COB application to the TSX Venture Exchange to become an industrial oil listed company, along with filing for a change of name to Gen III Oil Corporation.

Subject to approval of the COB by the TSX Venture Exchange, which has not yet been received:

- (a) The Company accepts the bid for FEED and detailed engineering as submitted by Stantec Consulting Ltd. and immediately proceed with the next phase of development. That includes, completion of detailed engineering design, obtaining of all necessary refining permits, and ordering of long lead order equipment targeting a fall 2017 start of construction in Bowden.
- (b) The Company immediately pursue the next stage of development of this re-refinery to avail itself of market conditions for Group II and Group III base oil to leverage the advantages currently available to the Company in terms of availability of construction labour and inexpensive equipment manufacture and fabrication.
- (c) Immediately following commencement of construction of Bowden, the Company secures additional re-refining sites to export the technology elsewhere around the world.

#### Notes:

##### *\*Material Factors and Assumptions*

*Material factors and assumptions used to develop forward-looking information is as follows. The capital cost of constructing a ReGen™ Re-refinery in Bowden, Alberta was projected by Stantec to be approximately \$90 million. The assumptions used by Stantec were based on a complete equipment listing derived by Stantec with quotes from major equipment manufactures. Labour and incidentals were factored based on engineering industry standards. The assumption was made that a final lease will be successfully negotiated for the Bowden site.*

## Gen III Oil Corporation (formerly PNG Gold Corporation)

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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*The cost of feedstock supplied to the Bowden plant, projected to be 28% of projected revenue was based on the proposed nameplate capacity of 2,800 barrels per day and was derived from the US Energy Information Administration pricing dated December 31, 2016, compared to current output revenue projections from computer modelling contained in both engineering reports.*

*Projected revenue was calculated by multiplying the projected plant output of Group II and Group III base lubricating oils, as well as ultra-low sulphur diesel, asphalt flux and naphtha, in the volumes predicted in the engineering studies, by the projected plant nameplate capacity of 2,800 barrels per day, operating 330 days per year. Gulf coast spot pricing of those commodities as reported in Lubes & Greases base oil report on March 1, 2017, along OPIS International Feedstocks Intelligence report dated February 7, 2017, and the US Energy Information Administration dated December 31, 2016, converted into Canadian dollars at the average posted exchange rate on March 9, 2017 were used to calculate projected gross revenue.*

*Net income, a GAAP measure, would reduce projected EBITDA, a non-GAAP measure, by financing costs, depreciation and income taxes. Financing costs are currently projected to be \$5.4 million, amortization is calculated to be \$5.48 million, and income taxes are projected to be \$23.5 million, which leaves a net income of approximately \$65 million, which is a GAAP measure. This does not include potential greenhouse gas credits.*

#### *Future Oriented Financial Information*

*The information in respect of the anticipated capital costs of constructing the re-refinery in Bowden, Alberta, the cost of feedstock supply as a percentage of projected revenue, the recurring annual revenue and the recurring annual EBITDA, contains Future Oriented Financial Information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Company's proposed activities and potential results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions including the assumptions discussed above under the heading "Material Factors and Assumptions". The actual results of the Company's proposed operations and the projected financial results may vary from the amounts set forth herein, and such variations may be material. Management believes that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments.*

The Company has identified:

- (a) A currently permitted refinery site in central Alberta, which could include an off-take agreement for the finished products from the proposed plant and 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 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;
- (b) Potential other customers who also could enter into off-take agreements for the purchase of the full production of the proposed plant site;
- (c) Federal and Provincial government loans and grants, which could cover a portion of the cost (estimated to be up to \$10 million) for the construction of the plant;
- (d) Key management personnel for the project;
- (e) Environmental consultants to quantify the greenhouse gas credits that could be generated by the plant, estimated to be approximately \$10 million per year and;
- (f) UMO feedstock suppliers for the plant. Feedstock is readily available from the more than 50% of currently collected UMO that is sold in North America today as low cost burner fuel.

## Gen III Oil Corporation (formerly PNG Gold Corporation)

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

Additionally, the Company is in negotiations with UMO collection companies to provide the feedstock quantities necessary to support a 2,800 barrel per day re-refinery, as well as also commencing preliminary negotiations with potential purchasers for all of the off-take products that will be produced by the re-refinery.

#### Mineral Properties

On March 31, 2017, the Company sold its wholly owned subsidiary, NMC Mining Corp, to 0804077 BC Ltd. 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 and mineral properties in Papua New Guinea.

#### **Exploration and Evaluation Expenditure**

Exploration expenditures during the three months ended March 31, 2017 amounted to \$24,007 (2016 - \$113,400), respectively.

The cumulative exploration expense on the Company's mineral interest properties is 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	27,985	1,716	29,701
Assaying	18,011	8,612	26,623
Consulting	4,624	5,654	10,278
Equipment	10,360	10,299	20,659
Legal	2,276	2,276	4,552
Transportation	2,119	706	2,825
Travel	401	134	535
Wages	15,066	3,161	18,227
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 March 31, 2016	25,410,472	2,429,900	27,840,372

## Gen III Oil Corporation (formerly PNG Gold Corporation)

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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#### Operations Update and Outlook

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On April 17, 2017, the Company submitted a COB application to the TSX Venture Exchange to become an industrial oil listed company. The Company intends to pursue the next stage of development of this re-refinery to avail itself of market conditions for Group II and Group III base oil to leverage the advantages currently available to the Company in terms of availability of construction labour and inexpensive equipment manufacture and fabrication.

#### Financial Update

During the fourth quarter of 2016 and the first quarter of 2017, the Company raised gross proceeds of \$3.5 million primarily to complete engineering studies to assess the viability of the ReGen™ process; to undertake additional patent work regarding the ReGen™ process; to provide a deposit to secure a potential plant site in Western Canada; to pay compensation to certain directors and officers of the Company; to pay commissions to finders in connection with the financings; to pay the expenses of the financings; and for working capital and general corporate purposes.

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#### Results of Operations

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#### Variance Analysis

The following table sets forth selected (Income)/Expense items that have significant variances between the three months ended March 31, 2017 and 2016.

	Three months ended March 31,	
	2017	2016
	\$	\$
Exploration	24,007	113,400
Investor relations	34,546	8,478
Professional fees	382,584	115,092
Salaries and benefits	220,992	355,355
Share-based payments	463,044	-
Interest income	(17,340)	(44,329)
Foreign exchange loss (gain)	328,715	(835)
Impairment	15,481	37,869
Gain on disposal of subsidiary	(747,836)	-

Exploration – Since the Company lost its exploration rights and ownership of the mineral interest, there was a decrease in exploration expense in the current quarter. Furthermore, the Company did not recognize any amortization expenses in the current quarter as it sold its drilling equipment in November 2016.

Investor relations – The increase was due to filing fees with respect to the private placements, debt settlement and the application for the COB.

Professional fees – Professional fees depend on the timing of the services being rendered and will vary from period to period. The increase was mainly due to the services of legal counsel and external consultants engaged to investigate opportunities relating to the ReGen™ technology.

Salaries and benefits – The decrease was mainly due to the lower number of employees at the corporate head office during the first quarter of 2017. Severance payments were incurred in the first quarter of 2016 when employees were terminated from their employment.

## Gen III Oil Corporation (formerly PNG Gold Corporation)

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

Share-based payments – On February 8, 2017, the Company granted 3,075,000 stock option to employees, consultants and directors at an exercise price of \$0.17, expiring on February 8, 2019. The options were fully vested on the grant date. The fair value of the stock options granted was \$463,044. The fair value of the stock options was estimated at the grant date using the Black-Scholes Option Pricing Model.

Interest income and Impairment – Included in interest income was interest accrued on the Verolube Loan and interest from cash deposits in the bank. The Company recorded an impairment loss of \$15,481 (2016 - \$37,869) for the Verolube interest.

Gain on sale of subsidiary and Foreign exchange loss (gain) - On March 31, 2017, the Company sold its wholly owned subsidiary, NMC Mining Corp, to 0804077 BC Ltd. for gross proceeds of one dollar plus future recoveries that are contingent upon certain future events occurring. NMC Mining Corp indirectly holds the Company's assets and mineral properties 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 three months ended March 31, 2017 (2016 - \$nil). As a result of the sale, the Company realized a foreign exchange loss of \$328,715 for the three months ended March 31, 2017.

### Summary of Quarterly Financial Results

The following table provides selected financial information of the Company for each of the last 8 quarters presented in accordance with IFRS.

	For the Quarters Ended			
	March 31, 2017 \$	December 31, 2016 \$	September 30, 2016 \$	June 30, 2016 \$
Financial Results:				
Expense	1,196,784	551,028	216,169	341,329
Other (income) expense	(420,980)	76,215	312,171	(4,023)
Net loss	775,804	627,243	528,340	337,306
Basic and diluted loss per share	0.02	0.02	0.00	0.00

	For the Quarters Ended			
	March 31, 2016 \$	December 31, 2015 \$	September 30, 2015 \$	June 30, 2015 \$
Financial Results:				
Expense	667,381	542,686	502,757	559,167
Other (income) expense	(7,295)	1,391,438	(35,642)	(35,940)
Net loss	660,086	1,934,124	467,115	523,227
Basic and diluted loss per share	0.03	0.01	0.00	0.00

## **Gen III Oil Corporation (formerly PNG Gold Corporation)**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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#### **Liquidity, Capital Resources, Commitments and Contingencies**

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##### **Working Capital and Cash**

During the three months ended March 31, 2017, cash and cash equivalents increased by \$2,055,740. The increase was due mainly to used in operations of \$655,087, offset by net cash raised in the private placement of \$2,711,425.

As at March 31, 2017, the Company had working capital of \$ 1,666,928 comprised of cash and cash equivalents of \$2,498,403, accounts receivable of \$206,407 and prepaid expenses of \$70,773 offset by accounts payable and accrued liabilities of \$1,108,655.

During the fourth quarter of 2016 and the first quarter of 2017, the Company raised gross proceeds of \$3.5 million primarily for to complete engineering studies to assess the viability of the ReGen™ process; to undertake additional patent work regarding the ReGen™ process; to provide a deposit to secure a potential plant site in Western Canada; to pay compensation to certain directors and officers of the Company; to pay commissions to finders in connection with the financings; to pay the expenses of the financings; and for working capital and general corporate purposes.

##### **Going Concern**

The Company's consolidated financial statements for the three months ended March 31, 2017 have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has not yet achieved profitable operations and expects to incur further losses in the development of its business. For the three months ended March 31, 2017, the Company reported a comprehensive loss of \$358,350 and as at March 31, 2017, had an accumulated deficit of \$72,915,365. 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, cash requirements, and recent financings, the Company has sufficient cash to finance its current plans for the next 12 months. However, actual results could be materially different than those expected or budgeted and the Company expects to continually monitor spending and assess results on an ongoing basis and make appropriate changes to expenditures as required. Management continues to explore alternative financing sources in the form of equity, debt or a combination thereof; however, the current economic uncertainty and financial market volatility make it difficult to predict success.

##### **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 \$66,753,390 and no long-term debt as at March 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, monitoring, 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 expects to 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.

## **Gen III Oil Corporation (formerly PNG Gold Corporation)**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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#### **Contractual Obligations**

The Company has rented an office in Calgary on a month to month basis for \$1,000 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 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 commitment of \$304,996. The commitments for the years ending December 31, 2017, 2018, 2019 and 2020 are \$55,760, \$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.

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#### **Off-Balance Sheet Arrangements**

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The Company has no off-balance sheet arrangements.

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#### **Transactions with Related Parties**

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Transactions with related parties are measured at an exchange amount established and agreed to by the related parties. Key Management personnel includes the Chief Executive Officer, the President, the Chief Financial Officer, and the Directors. For the three months ended March 31, 2017 and 2016, salaries to Key Management amounted to \$216,100 and \$259,860, respectively. During the three months ended March 31, 2016, severance in the amount of \$57,000 was paid to the Company's former President.

For the three months ended March 31, 2017, salaries to Key Management included fees of \$32,500 (2016 - \$nil) that were paid to a company that is controlled by the Company's current President (George Davidson). For the three months ended March 31, 2017, professional fees included \$45,000 (2016 - \$nil) that was paid to a company that is controlled by a director (Larry Van Hatten).

On Feb 9, 2017, the Chief Executive Officer (Greg Clarkes) and a director (Paul DiPasquale) 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.

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

## Gen III Oil Corporation (formerly PNG Gold Corporation)

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

the previous \$140,000 loaned. The Company's Chief Executive Officer and director (Greg Clarkes) served as a 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 March 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<sup>TM</sup> 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<sup>TM</sup> 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<sup>TM</sup> 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 security rights. The Company currently owns the ReGen<sup>TM</sup> re-refining technology; and either has, or is in the process of, transferring ownership of the various ReGen patents to the Company.

## Gen III Oil Corporation (formerly PNG Gold Corporation)

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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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 (John Detmold and Bryan Nethery) with the Company.

Included in accounts payable and accrued liabilities as at March 31, 2017 is \$309,376 (December 31, 2016 - \$268,128) of accrued directors' fees, \$50,400 (December 31, 2016 - \$50,400) of accrued salaries payable to the current President (see Outstanding Share Data section) and \$4,000 (December 31, 2016 - \$4,000) of accrued expense allowance payable to the Chief Executive Officer (Greg Clarkes).

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### Financial Instruments and Risk Management

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The Company's financial instruments at March 31, 2017 include cash and cash equivalents, accounts receivable, Investment in Coppermoly Ltd., and accounts payables and accrued liabilities. There were no material changes to the Company's financial instruments and risk exposures for the three months ended March 31, 2017 from those as reported in the Company's MD&A for the year ended December 31, 2016.

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### Outstanding Share Data

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As at May 24, 2017, the following shares are outstanding:

- Authorized: Unlimited common shares without par value  
Unlimited number of preferred shares without par value
- Issued and outstanding: 48,448,954 common shares
- Stock options outstanding and fully vested:
  - 520,000 with exercise price of \$1.75 per option and an expiry date of August 27, 2017
  - 3,075,000 with exercise price of \$0.17 per option and an expiry date of February 8, 2019
  - 100,000 with exercise price of \$0.46 per option and an expiry date of July 29, 2017
  - 40,000 with exercise price of \$0.72 per option and an expiry date of May 17, 2019

Effective November 11, 2016, the Company consolidated its share capital, stock options, on a 5-to-1 basis. In accordance with IAS 10 and IAS 33, the Company's basic and diluted loss per share presented in its condensed consolidated interim statements of loss and comprehensive loss for the three months ended March 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 (the "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 ("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. All securities issued under the Offering are subject to a four month hold period expiring on April 13, 2017.

On February 8, 2017, the Company granted of an aggregate of 3,075,000 stock options to employees, consultants and directors at an exercise price of \$0.17, expiring on the date that is 2 years from the date of the grant. These stock options fully vested on the date of grant. All stock options will be subject to a four-month hold period in accordance with the policies of the TSX Venture Exchange.

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## Gen III Oil Corporation (formerly PNG Gold Corporation)

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

On February 9, 2017, the Company closed the final tranche of the Offering. Under the Offering, the Company closed upon 6,450,000 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 with each whole Warrant entitling the holder to acquire one common share at a price of \$0.30 per share until February 6, 2018. 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. All securities issued under the final tranche are subject to a four month hold period expiring on June 9, 2017.

In total under the Offering, the Company issued 12,000,000 Units for aggregate gross proceeds of \$1,200,000. Certain finder's received a cash fee of up to 8% of the proceeds Offering.

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. All securities issued under the private placement are subject to a four month hold period from the date of issuance. Certain finders received a cash fee equal to 8% of the proceeds of the private placement.

On April 1, 2017, the Company granted of an aggregate of 300,000 stock options to an officer at an exercise price of \$0.46, expiring on the date that is 2 years from the date of the grant. These stock options will vest over a period of six months from the date of grant. On April 30, 2017, 200,000 of the unvested stock options were forfeited due to the termination of the officer's employment.

On April 19, 2017, the Company settled \$345,576 in debt ("Debt") in exchange for 2,032,797 common shares (the "Shares") at a deemed price of \$0. 17 per Share as follows:

<u>Creditor</u>	<u>Debt Amount</u>	<u>Number of Shares</u>	<u>Nature of Debt</u>
John Detmold, director	\$150,000	882,353	60 months of directors' fees at \$2,500 per month
Larry Van Hatten, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Larry Van Hatten, director	\$8,747	51,453	10.5 months of fees as audit committee chair at \$833 per month
Paul DiPasquale, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Brian Nethery, director	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Greg Clarkes, director and officer	\$26,250	154,411	10.5 months of directors' fees at \$2,500 per month
Greg Clarkes, director and officer	\$4,379	25,759	10.5 months of fees as compensation committee chair at \$417 per month
George Davidson, officer	\$50,400	296,470	6 months unpaid compensation (inclusive of taxes)
<b>Total</b>	<b>\$318,526</b>	<b>1,873,679</b>	

The remaining 159,118 Shares was issued to an arm's length creditor to settle \$27,050 in Debt. All Shares issued is subject to a four-month hold period. The Shares for Debt transactions in the table above are each a related party transaction.

On April 24, 2017, 250,000 warrants, at an exercise price of \$0.30 per warrant, were exercised for gross proceeds of \$75,000. On May 16, 2017, 250,000 warrants, at an exercise price of \$0.30 per warrant, were exercised for gross proceeds of \$75,000.

## **Gen III Oil Corporation (formerly PNG Gold Corporation)**

### MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

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On May 17, 2017, the Company granted an aggregate of 480,000 stock options to employees and consultants at an exercise price of \$0.72, expiring on the date that is 2 years from the date of grant. All stock options will be subject to a four-month hold period in accordance with the policies of the TSX Venture Exchange. The vesting periods are as follows:

- 40,000 on May 17, 2017
- 100,000 on September 1, 2017
- 140,000 on November 1, 2017
- 100,000 on December 1, 2017
- 100,000 on June 1, 2018

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#### **Critical Accounting Estimates**

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There were no material changes to the Company's critical accounting estimates and judgments for the three months ended March 31, 2017 from those as reported in the Company's MD&A for the year ended December 31, 2016.

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#### **Recent Accounting Pronouncements**

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The Company's adoption of recent accounting pronouncements is described in note 2(c) of the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017, which is filed on SEDAR at [www.sedar.com](http://www.sedar.com).

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#### **Risks and Uncertainties**

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There were no material changes to the Company's risks and uncertainties for the three months ended March 31, 2017 from those as reported in the Company's MD&A for the year ended December 31, 2016.

**CERTIFICATE OF THE ISSUER**

The foregoing document constitutes full, true, and plain disclosure of all material facts relating to the securities of GEN III Oil Corporation assuming completion of the Change of Business.

DATED: June 30, 2017

(signed) "Greg Clarkes"  
Greg Clarkes  
Chief Executive Officer

(signed) "Rick Low"  
Rick Low  
Chief Financial Officer

On behalf of the Board of Directors

(signed) "Larry Van Hatten"  
Larry Van Hatten  
Director

(signed) "Paul DiPasquale"  
Paul DiPasquale  
Director

**ACKNOWLEDGMENT - PERSONAL INFORMATION**

**"Personal Information"** means any information about an identifiable individual, and includes information contained in any items in the attached filing statement that are analogous to Items 4.2, 11, 13.1, 16, 18.2, 19.2, 24, 25, 27, 32.3, 33, 34, 35, 36, 37, 38, 39, 41, and 42 of Exchange Form 3D2, as applicable.

The undersigned hereby acknowledges and agrees that it has obtained the express written consent of each individual to:

- (a) the disclosure of Personal Information by the undersigned to the Exchange (as defined in Appendix 6B) pursuant to Exchange Form 3D2; and
- (b) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6B or as otherwise identified by the Exchange, from time to time.

DATED: June 30, 2017

(signed) "Greg Clarkes"  
Greg Clarkes  
Chief Executive Officer