PNG Gold Corporation

MANAGEMENT DISCUSSION AND ANALYSIS
For the three and nine months ended September 30, 2016

As at October 25, 2016

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Introduction

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 are 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 October 25, 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") and the unaudited condensed consolidated interim financial statements of the Company for the three and nine months ended September 30, 2016, 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, 2016. 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.

Forward Looking Information

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 or 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.

Projects

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 $121,000. 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 $174,000. 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 earlier this year its representative met with various parties in Papua New Guinea who indicated no issues with the license renewal process. The Company has instructed its in-country legal counsel to contact the MRA to discuss the matter and pursue all legal avenues to have this decision reversed.

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 $200,000. As the Company no longer has exploration rights and ownership of the mineral interests, the recoverable amount was determined to be $nil.

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. A total of 303 soil samples were collected from the Weioko Prospect located on the Schuela exploration license number 1069. At the Dimwadimwala Prospect area on exploration license 1091 a total of 528 soil samples and 42 rock samples were collected. The majority of rock samples were collected from three hand trenches dug in an area of quartz veining with pyrite +/- arsenopyrite mineralization. Preliminary analytical results have been received and final certificates are still pending. Further work consisting of more rock and soil sampling is recommended on both prospects once all the data is compiled.

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.

Exploration and Evaluation Expenditure

Exploration expenditures during the three and nine months ended September 30, 2016 amounted to $49,031 (2015 - $91,255) and $225,851 (2015 - $291,110), 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	11,730	1,441	13,171
Consulting	549	-	549
Equipment	10,339	9,671	20,010
Transportation	843	281	1,124
Travel	240	80	320
Wages	11,631	2,226	13,857
Three months ended September 30, 2016	35,332	13,699	49,031
Six months ended June 30, 2016	126,869	49,951	176,820
Cumulative to December 31, 2015	25,329,630	2,397,342	27,726,972
Cumulative to September 30, 2016	25,491,831	2,460,992	27,952,823

	Papua New Guinea		
	Normanby	Sehulea	Total
	$	$	$
Exploration expense:			
Administration	52,223	4,779	57,002
Assaying	18,011	8,612	26,623
Consulting	10,954	6,555	17,509
Equipment	30,052	29,313	59,365
Legal	4,169	4,169	8,338
Transportation	6,020	2,007	8,027
Travel	1,141	380	1,521
Wages	39,631	7,835	47,466
Nine months ended September 30, 2016	162,201	63,650	225,851
Cumulative to December 31, 2015	25,329,630	2,397,342	27,726,972
Cumulative to September 30, 2016	25,491,831	2,460,992	27,952,823

	Papua New Guinea		
	Normanby	Sehulea	Total
	$	$	$
Exploration expense:			
Administration	4,497	1,918	6,415
Consulting	508	-	508
Equipment	30,750	30,463	61,213
Legal	2,798	2,798	5,596
Transportation	1,948	649	2,597
Travel	314	105	419
Wages	11,788	2,719	14,507
Three months ended September 30, 2015	52,603	38,652	91,255
Six months ended June 30, 2015	124,315	75,540	199,855
Cumulative to December 31, 2014	25,052,975	2,210,325	27,263,300
Cumulative to September 30, 2015	25,229,893	2,324,517	27,554,410

	Papua New Guinea		
	Normanby	Sehulea	Total
	$	$	$
Exploration expense:			
Administration	40,621	11,263	51,884
Consulting	1,667	-	1,667
Equipment	80,976	80,400	161,376
Legal	11,938	11,938	23,876
Transportation	6,494	2,164	8,658
Travel	529	177	706
Wages	34,693	8,250	42,943
Nine months ended September 30, 2015	176,918	114,192	291,110
Cumulative to December 31, 2014	25,052,975	2,210,325	27,263,300
Cumulative to September 30, 2015	25,229,893	2,324,517	27,554,410

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.

Operations Update and Outlook

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. 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. Preliminary analytical results have been received and final certificates are still pending. Further work consisting of more rock and soil sampling is recommend on both prospects once all the data is compiled.

The Company is currently investigating opportunities relating to VeroLube Inc.'s patented ReGen technology.

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. In November 2015 at the Dimwadimwala Prospect area, a total of 528 soil samples and 42 rock samples were collected. The majority of rock samples were collected from three hand trenches dug in an area of quartz veining with pyrite +/- arsenopyrite mineralization.

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). In November 2015, 303 soil samples were collected from 15, 50 metre spaced lines with samples collected at 25 metre intervals on the Weioko Prospect located on the Schuela exploration licence number 1069.

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. 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.

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.

Results of Operations

Variance Analysis

The following table sets forth selected (Income)/Expense items that have significant variances between the three and nine months ended September 30, 2016 and 2015.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Exploration	49,031	91,255	225,851	291,110
General and administration	28,253	74,754	169,735	245,643
Professional fees	77,000	79,909	276,525	238,879
Salaries and benefits	60,902	246,600	541,570	730,095
Travel and accommodation	663	6,845	1,705	65,440
Interest income	(42,330)	(36,748)	(130,563)	(150,766)
Impairment	354,975	-	432,634	-

Exploration – An impairment loss was recognized in drilling equipment in December 2015. As a result, there was a decrease in amortization expense in the current quarter. The year-to-date decrease was due to lower 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.

Professional fees – Professional fees depend on the timing of the services being rendered and will vary from period to period. The increase during the nine months ended September 30, 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 $119,934 on the loan to VeroLube (discussed in Transactions with Related Parties section), $200,000 in mineral interests (discussed in Projects section) and $112,700 in drilling equipment (discussed below).

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 $200,000. As the Company no longer has exploration rights and ownership of the mineral interests, the recoverable amount was determined to be $nil. The Company did not recognize impairment losses in the prior periods.

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			
	September 30, 2016 $	June 30, 2016 $	March 31, 2016 $	December 31, 2015 $
Financial Results:				
Expense	216,169	341,329	667,381	542,686
Other (income) expense	312,171	(4,023)	(7,295)	1,391,438
Net loss	528,340	337,306	660,086	1,934,124
Basic and diluted loss per share	0.00	0.00	0.01	0.01

	For the Quarters Ended			
	September 30, 2015 $	June 30, 2015 $	March 31, 2015 $	December 31, 2014 $
Financial Results:				
Expense	502,757	559,167	526,378	406,149
Other (income) expense	(35,642)	(35,940)	(77,400)	(163,025)
Net loss	467,115	523,227	448,978	243,124
Basic and diluted loss per share	0.00	0.00	0.00	0.00

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, impairment losses aggregating $1,435,648 was recognized on receivables, loans, investments and property and equipment.

Liquidity, Capital Resources, Commitments and Contingencies

Working Capital and Cash

During the three and nine months ended September 30, 2016, cash and cash equivalents decreased by $73,445 and $828,073, respectively. The decrease was due mainly to cash used in operations.

As at September 30, 2016, the Company had working capital deficiency of $1,255,714 comprised of cash and cash equivalents of $4,674, accounts receivable of $2,969 and prepaid expenses of $6,187 offset by accounts payable and accrued liabilities of $1,269,544. 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 condensed consolidated interim financial statements for the three and nine months ended September 30, 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, 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 nine months ended September 30, 2016, the Company reported a comprehensive loss of $1,508,042 and as at September 30, 2016, had an accumulated deficit of $71,512,318. 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. 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. 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 condensed consolidated interim financial statements for the three and nine months ended September 30, 2016 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 September 30, 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 $121,000. 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 $174,000. 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 instructed its in-country legal counsel to contact the MRA to discuss the matter and pursue all legal avenues to have this decision reversed.

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 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.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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 three months ended September 30, 2016 and 2015, salaries to Key Management amounted to $47,663 and $174,633, respectively. For the nine months ended September 30, 2016 and 2015, salaries to Key Management amounted to $426,198 and $524,574 respectively. During the nine months ended September 30, 2016, severance in the amount of $57,000 (2015 - $nil) was paid to the President.

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"). 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. 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.

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	-
Accretion	119,934
Impairment	(119,934)
Balance as at September 30, 2016	-

On March 28, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with VeroLube. Under the Forbearance Agreement, the Company has 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 does not fulfill those conditions, the Company will be free to exercise its rights and remedies under the loan documents as it sees fit. VeroLube has not fulfilled these conditions and to-date, the Company has not exercised its rights and remedies under the loan documents. The Forbearance Agreement provides that if VeroLube does fulfill those conditions, it shall repay the loans on or before December 31, 2016. If VeroLube repays the loans by such date, then the Company will reassign the Patents to VeroLube, and VeroLube will grant the Company a non-exclusive, perpetual license to use the ReGen technology worldwide. If VeroLube does not repay the loans by such date, the Company will retain ownership of the patents and shall be able to exercise any and all remedies and recourses which are 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.

Included in accounts payable and accrued liabilities as at September 30, 2016 is $226,876 (2015 - $nil) of accrued directors' fees and $4,000 (2015 - $nil) of accrued expense allowance payable to the Chief Executive Officer.

Financial Instruments and Risk Management

The Company's financial instruments at September 30, 2016 include cash and cash equivalents, accounts receivable, Investment in COY, and accounts payables and accrued liabilities. There were no material changes to the Company's financial instruments and risk exposures for the three and nine months ended September 30, 2016 from those as reported in the Company's MD&A for the year ended December 31, 2015.

Outstanding Share Data

As at October 25, 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:
  3,675,000 with exercise price of $0.35 per option and an expiry date of August 27, 2017

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.

Critical Accounting Estimates

There were no material changes to the Company's critical accounting estimates and judgments for the three and nine months ended September 30, 2016 from those as reported in the Company's MD&A for the year ended December 31, 2015.

Recent Accounting Pronouncements

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 and nine months ended September 30, 2016, which is filed on SEDAR at www.sedar.com.

Risks and Uncertainties

There were no material changes to the Company's risks and uncertainties for the three and nine months ended September 30, 2016 from those as reported in the Company's MD&A for the year ended December 31, 2015.

Qualified Person

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.