Gen III Oil Corporation (formerly PNG Gold Corporation)

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

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For the Three and Nine Months Ended September 30, 2017 **Page**

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

	September 30, 2017	December 31, 2016
	$	$
ASSETS		
Current		
Cash and cash equivalents	6,655,097	442,663
Accounts receivable	80,613	28,040
Prepaid expenses	78,857	78,033
	6,814,567	548,736
Property and equipment (note 3)	8,328	8,328
Investments	49,759	30,621
Total assets	**6,872,654**	**587,685**
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 5)	1,014,598	760,024
Accrued tax provision	158,000	872,833
	1,172,598	1,632,857
Shareholders' Equity (Deficit)		
Share capital (note 6)	73,851,282	64,041,965
Contributed surplus	8,126,472	7,374,187
Accumulated deficit	(76,327,457)	(72,139,561)
Accumulated other comprehensive income (loss)		
Cumulative translation adjustments	-	(352,384)
Unrealized gain on available-for-sale investments	49,759	30,621
Total shareholders' equity (deficit)	5,700,056	(1,045,172)
Total liabilities and shareholders' equity (deficit)	**6,872,654**	**587,685**

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

Approved on behalf of the Board of Directors:

"Greg Clarkes"   *"Larry Van Hatten"*

Greg Clarkes, Director   Larry Van Hatten, Director

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Expense				
Exploration (note 4)	-	49,031	24,007	225,851
General and administration	83,696	28,253	419,443	169,735
Investor relations	10,524	320	55,674	9,493
Professional fees	1,211,153	77,000	2,069,054	276,525
Salaries and benefits (note 5)	215,110	60,902	760,522	541,570
Share-based payments (note 6)	55,855	-	557,342	-
Travel and accommodation	26,523	663	101,048	1,705
	1,602,861	216,169	3,987,090	1,224,879
Other (income) expense				
Interest income (note 5)	(4,949)	(42,330)	(26,955)	(130,563)
Foreign exchange loss (gain)	213	(474)	329,949	(1,218)
Impairment loss (notes 3 and 5)	-	354,975	15,481	432,634
Loss on shares for debt settlement (note 6)	-	-	630,167	-
Gain on disposal of subsidiary (note 10)	-	-	(747,836)	-
	(4,736)	312,171	200,806	300,853
Net loss for the period	1,598,125	528,340	4,187,896	1,525,732
Other comprehensive (income) loss				
Other comprehensive (income) loss to be reclassified to profit or loss in subsequent periods:				
Unrealized (gain) loss on available-for-sale investments	26,794	(15,311)	(19,138)	(22,966)
Exchange difference on translating foreign operations	-	(335)	-	5,276
Reallocation of exchange difference on translating foreign operations	-	-	(352,384)	-
	26,794	(15,646)	(371,522)	(17,690)
Total comprehensive loss for the period	1,624,919	512,694	3,816,374	1,508,042
Loss per share – basic and diluted	0.03	0.02	0.09	0.06
Weighted average number of shares outstanding - basic and diluted	48,944,963	26,233,657	44,665,376	26,233,657

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)

				Accumulated other comprehensive income (loss)		
	Share capital	**Contributed surplus**	**Accumulated deficit**	**Cumulative translation adjustments**	**Unrealized gain (loss) on available-for-sale investments**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Balance as at December 31, 2015	63,540,233	7,374,187	(69,986,586)	(343,161)	22,966	607,639
Loss for the period	-	-	(1,525,732)	-	-	(1,525,732)
Other comprehensive income (loss)	-	-	-	(5,276)	22,966	17,690
Balance as at September 30, 2016	63,540,233	7,374,187	(71,512,318)	(348,437)	45,932	(900,403)
Issuance of share capital (note 6)	555,000	-	-	-	-	555,000
Share issuance costs (note 6)	(53,268)	-	-	-	-	(53,268)
Loss for the period	-	-	(627,243)	-	-	(627,243)
Other comprehensive income (loss)	-	-	-	(3,947)	(15,311)	(19,258)
Balance as at December 31, 2016	64,041,965	7,374,187	(72,139,561)	(352,384)	30,621	(1,045,172)
Issuance of share capital (note 6)	11,073,734	-	-	-	-	11,073,734
Share issuance costs (note 6)	(1,264,417)	194,943	-	-	-	(1,069,474)
Share-based payments (note 6)	-	557,342	-	-	-	557,342
Loss for the period	-	-	(4,187,896)	-	-	(4,187,896)
Other comprehensive income (loss)	-	-	-	352,384	19,138	371,522
Balance as at September 30, 2017	73,851,282	8,126,472	(76,327,457)	-	49,759	5,700,056

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 nine months ended September 30, 2017 and 2016
(Unaudited)
(Expressed in Canadian dollars)

	2017	2016
	$	$
Operating activities		
Net loss for the period	(4,187,896)	(1,525,732)
Adjustments for items not involving cash		
Amortization (note 3)	-	56,740
Share-based payments (note 6)	557,342	-
Accrued interest income	(17,958)	(119,934)
Foreign exchange loss	328,715	-
Impairment loss (note 5)	15,481	432,634
Loss on shares for debt settlement (note 6)	630,167	-
Gain on disposal of subsidiary (note 10)	(747,836)	-
Effect of foreign exchange on cash	23,669	65,026
	(3,398,316)	(1,091,266)
Net change in non-cash working capital		
Accounts receivable	(50,382)	9,196
Prepaid expenses	(824)	63,007
Accounts payable and accrued liabilities	711,505	187,314
Accrued tax provision	(77,468)	3,676
Net cash flows used in operating activities	(2,815,485)	(828,073)
Financing activities		
Issuance of share capital (note 6)	9,785,700	-
Share issuance costs (note 6)	(757,183)	-
Net cash flows from financing activities	9,028,517	-
Investing activities		
Cash disposed in sale of subsidiary (note 10)	(598)	-
Net cash used in investing activities	(598)	-
Increase (decrease) in cash and cash equivalents during the period	6,212,434	(828,073)
Cash and cash equivalents, beginning of the period	442,663	832,747
Cash and cash equivalents, end of the period	6,655,097	4,674

Supplemental cash flow information (note 8)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

In 2014 and 2015, the Company entered into agreements with VeroLube Inc. and its subsidiary, VeroLube Bowden Plant Inc. (collectively, "VeroLube") to loan funds to VeroLube. These loans were not repaid and on April 4, 2016, the Company entered into a forbearance agreement (the "Forbearance Agreement") with VeroLube. Under the Forbearance Agreement, the Company agreed to forbear from exercising its rights and remedies under the loan documents until December 31, 2016, conditionally upon VeroLube assigning the patents for its ReGen™ technology to the Company. If VeroLube did not repay the loans by December 31, 2016, the Company would retain ownership of the patents and would be able to exercise any and all remedies and recourses which were available to it against VeroLube. On January 3, 2017, the Company announced that it had granted a limited 30-day extension to its Forbearance Agreement with VeroLube. The extension, from December 31, 2016 to January 30, 2017, was granted subject to certain conditions being met by VeroLube, including: the delivery to the Company of three originally executed copies of the patent license agreement, and delivery to the Company of such documents as it may require to effect absolute assignment of the patents, both as provided for in the Forbearance Agreement. All other terms and conditions of the Forbearance Agreement remained in full force and effect. On January 15, 2017, VeroLube assigned the patents for the ReGen™ technology to the Company. The Company currently holds four (4) ReGen™ patents that have been issued in North America and two (2) other ReGen™ patents that have been issued in India and Singapore. The Company also holds twelve (12) other ReGen™ patent applications world-wide that have either been allowed, are pending, are under review or are in the process of being resurrected from abandoned status. In addition, The Company has also filed one (1) provisional patent application in the United States to encompass the technological advancements in hydro-treating technology since the patent applications were filed by the original inventor. These ReGen™ patents provide protection over the ReGen™ technology.

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

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

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. At September 30, 2017, the Company had a working capital of $5,641,969, had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the nine months ended September 30, 2017, the Company reported a comprehensive loss of $3,816,374 and as at September 30, 2017, had an accumulated deficit of $76,327,457. 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 September 30, 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 condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") effective for the Company's reporting period ending December 31, 2017. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. The accounting policies applied are the same as those applied in the Company's most recent annual financial statements which are filed under the Company's profile on SEDAR at www.sedar.com. The results for interim periods are not necessarily indicative of results for the entire year. The preparation of these unaudited condensed consolidated interim financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of expenses during the period. As a result, actual amounts may differ from those estimates.

These unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2017 were approved and authorized for issue by the Board of Directors on November 21, 2017.

(b) Principles of Consolidation

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

(c) New accounting pronouncements

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

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

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

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

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

3. PROPERTY AND EQUIPMENT

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

(Expressed in Canadian dollars)

3. PROPERTY AND EQUIPMENT (continued)

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Allocation of amortization	**$**	**$**	**$**	**$**
Amortization	-	-	-	-
Exploration	-	18,660	-	56,740
Total amortization	-	18,660	-	56,740

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

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

4. MINERAL INTERESTS

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

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

(Expressed in Canadian dollars)

4. MINERAL INTERESTS (continued)

	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

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

(Expressed in Canadian dollars)

4. MINERAL INTERESTS (continued)

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

5. RELATED PARTY TRANSACTIONS

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Salaries to Key Management personnel	168,750	47,663	443,750	369,198
Payments for consulting services to a company controlled by current President	45,000	-	122,500	-
Payments for consulting services to a company controlled by Chief Operating Officer	21,375	-	28,500	-
Payments for consulting services to a company controlled by Chief Financial Officer	-	-	20,462	-
Severance to former President	-	-	-	57,000
Professional fees to company controlled by Director	16,500	-	86,500	-
Total	251,625	47,663	701,712	426,198

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

On April 19, 2017, the Company settled $318,526 of directors and officers compensation in exchange for 1,873,679 common shares at a deemed price of $0. 17 per share.

On September 27, 2017, the Chief Operating Officer purchased 75,000 units of the Company's private placement described in note 6 (b).

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

(Expressed in Canadian dollars)

5. RELATED PARTY TRANSACTIONS (continued)

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 September 30, 2017	-

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

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

(Expressed in Canadian dollars)

5. RELATED PARTY TRANSACTIONS (continued)

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

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

Included in accounts payable and accrued liabilities as at September 30, 2017 is $123,750 (December 31, 2016 - $268,128) of accrued directors' fees, $nil (December 31, 2016 - $50,400) of accrued salaries payable to the current President and $29,922 (December 31, 2016 - $4,000) of accrued expense reimbursements payable to officers and a director.

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	23,469,572	9,485,700
Debt settlement (note 5)	2,032,797	975,743
Exercise of warrants	1,000,000	300,000
Broker commissions and fees settled by issuance of shares	446,128	312,291
Share issuance costs	-	(1,264,417)
September 30, 2017	58,732,154	73,851,282

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

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

6. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued):

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.

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

On September 27, 2017, the Company issued an aggregate of 9,337,072 units at a price of $0.70 per unit for aggregate gross proceeds of $ 6,535,950.50. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at any time until September 27, 2019 at an exercise price of $1.00 per common share. In connection with the offering, the Company entered into an agency agreement with the agent dated effective September 27, 2017. At closing, the Company paid to the agent an aggregate of $397,225.78 cash, representing a portion of the agent's commission and all of the agent's related expenses (including legal fees). The agent elected to receive the agent's corporate finance fee and the balance of the agent's commission in units, and at closing the Company issued to the agent 446,128 units at a price of $0.70 per unit. In addition, the agent also subscribed for 322,211 units at a price of $0.70 per unit under the offering. The Company also issued to the agent 653,595 broker warrants of the Company. Each broker warrant entitles the agent to purchase one unit at any time until September 27, 2019 at a price of $0.70 per unit and each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the agent to purchase one common share at an exercise price of $1.00 at any time until September 27, 2019.

During the nine months ended September 30, 2017, 1,000,000 warrants, at an exercise price of $0.30 per warrant, were exercised for gross proceeds of $300,000.

(c) Stock Options and Share-Based Payments

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

(1) On February 8, 2017, 3,075,000 options were granted at an exercise price of $0.17, expiring on February 8, 2019. These stock options were fully vested on the date of grant.

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

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

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

(3) On May 17, 2017, the Company granted an aggregate of 180,000 stock options at an exercise price of $0.72, expiring on May, 17, 2019. 40,000 options vested on the date of grant. 140,000 options will vest on November 1, 2017.

(4) On June 1, 2017, the Company granted an aggregate of 300,000 stock options at an exercise price of $0.72, expiring on June 1, 2019. The options will vest in three equal tranches on September 1, 2017, December 1, 2017, and June 1, 2018.

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

The aggregate fair value of the stock options granted was $676,292, of which $557,342 was recognized as share-based compensation for the nine months ended September 30, 2017 (2016 - $nil). The fair value of the stock options was estimated at the grant date using the Black-Scholes Option Pricing Model. The inputs for the Black-Scholes Option Pricing Model are as follows:

	Date of Grant				
	February 8, 2017	April 1, 2017	May 17, 2017	June 1, 2017	September 20, 2017
Risk free interest rate	0.69%	0.74%	0.65%	0.69%	1.56%
Expected dividend yield	nil	nil	nil	nil	nil
Expected annual volatility	73%	33%	68%	69%	66%
Expected life	1 year	3 months	1 year	1 year	1 year
Forfeiture rate	nil	nil	10%	10%	20%

(Expressed in Canadian dollars)

6. SHARE CAPITAL (continued)

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

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

	Number of options	**Weighted average exercise price $**
Outstanding and fully vested – December 31, 2015	7,250,000	0.42
Options expired	(3,475,000)	0.50
Options expired	(100,000)	0.57
Options expired	(1,075,000)	0.35
	2,600,000	0.34
Share consolidation	(2,080,000)	1.70
Outstanding and fully vested – December 31, 2016	520,000	1.70
Options granted	4,355,000	0.31
Options forfeited	(225,000)	0.49
Options expired	(620,000)	1.54
Outstanding – September 30, 2017	4,030,000	0.30

(d) Warrants

As at September 30, 2017, for the warrants issued in connection with the Offering, there were 5,000,000 warrants outstanding of which, 1,775,000 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.

As at September 30, 2017, for the warrants issued in connection with the private placement on September 30, 2017, there were 5,545,196 warrants outstanding. Each warrant entitles the holder to purchase one common share at any time until September 27, 2019 at an exercise price of $1.00 per common share. The Company used the residual value method to allocate all of the value received to shares and therefore, no value was allocated to the warrants.

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

6. SHARE CAPITAL (continued)

(d) Warrants (continued)

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

(e) Reserves

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

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

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

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

7. COMMITMENTS

The Company has rented an office in Calgary on a month to month basis for $4,300 per month and increasing to $6,300 per month after November 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 Company paid a non-refundable payment of $150,000, which was expensed for the nine months ended September 30, 2017. The transactions contemplated by the LOI are subject to customary conditions, including completion of due diligence, receipt of all required third party approvals for the Lease and related matters and corporate approvals of each of Parkland and the Company.

On March 7, 2017, the Company entered into a 37 month lease agreement for its new corporate head office that has a total remaining commitment of $273,133. The remaining commitments for the years ending December 31, 2017, 2018, 2019 and 2020 are $23,897, $98,463, $100,515, $50,258, respectively.

On September 12, 2017, the Company entered into a purchase and sale agreement (“PSA”) with Elbow River Marketing Ltd. (“Elbow River”) for the majority of the Company’s finished products from its first rerefinery being constructed in Bowden, Alberta. Under the terms of the PSA, Elbow River will purchase the majority of the Company’s Bowden plant production and provide rail and truck transportation from the Bowden plant to Elbow River's customers. The agreement is for an initial term of five years from commencement of commercial operations as defined in the agreement. Under the agreement, the Company has undertaken to reimburse reasonable set up costs incurred by Elbow River should the Company fail to deliver product by the projected

(Expressed in Canadian dollars)

7. COMMITMENTS (continued)

commercial operations date that had been advised to Elbow River. Due to the nature and timing of these costs, it is not practicable to estimate such reimbursable costs at this time.

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

8. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	$	$	$	$
Operating activities				
Interest income received from banks	3,999	138	9,236	2,602
Financing Activities				
Broker commissions and fees settled by issuance of shares	312,291	-	312,291	-

9. GEOGRAPHICAL AREA INFORMATION

	Canada	Papua New Guinea	Total
	$	$	$
September 30, 2017			
Property and equipment	8,328	-	8,328
Total assets	6,872,654	-	6,872,654
December 31, 2016			
Property and equipment	8,328	-	8,328
Total assets	586,535	1,150	587,685

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	$	$	$	$
Net loss – Canada	1,598,125	150,933	4,160,337	962,504
Net loss – Papua New Guinea	-	364,847	27,559	550,668
Net loss - Barbados	-	12,560	-	12,560
Total net loss	1,598,125	528,340	4,187,896	1,525,732

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 nine months ended September 30, 2017 (2016 - $nil).

11. SUBSEQUENT EVENTS

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

(b) On October 17, 2017, the TSX Venture Exchange approved the Company's change of business to become an industrial oil company.

(c) On October 27, 2017, 25,000 of the unvested stock options were forfeited due to the resignation of an employee.

(d) On November 3, 2017, 250,000 warrants, an at exercise price of $0.30 per warrant, were exercised for gross proceeds of $75,000.