PNG Gold Corporation

Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2016
(Unaudited)
(Expressed in Canadian dollars)

Management's Comments on Unaudited Condensed Consolidated Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of PNG Gold Corporation for the three and six months ended June 30, 2016, have been prepared by the Company's management and approved by the Audit Committee and Board of Directors of the Company. The accompanying unaudited condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

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(Unaudited)
(Expressed in Canadian dollars)

For the Three and Six Months Ended June 30, 2016 **Page**

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

	June 30, 2016	December 31, 2015
	$	$
ASSETS		
Current		
Cash and cash equivalents	78,119	832,747
Accounts receivable	7,781	12,165
Prepaid expenses	15,764	69,194
	101,664	914,106
Property and equipment (note 3)	437,531	532,302
Mineral interests (note 4)	193,047	216,819
Investments	30,621	22,966
Total assets	**762,863**	**1,686,193**
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 5)	1,150,572	1,078,554
	1,150,572	1,078,554
Shareholders' (Deficit) Equity		
Share capital (note 6)	63,540,233	63,540,233
Contributed surplus	7,374,187	7,374,187
Accumulated deficit	(70,983,978)	(69,986,586)
Accumulated other comprehensive income (loss)		
Cumulative translation adjustments	(348,772)	(343,161)
Unrealized gain on available-for-sale investments	30,621	22,966
Total shareholders' (deficit) equity	(387,709)	607,639
Total liabilities and shareholders' (deficit) equity	**762,863**	**1,686,193**

Nature of operations and going concern (note 1)
Commitments (notes 4 and 7)

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

PNG Gold Corporation
(An Exploration Stage Company)
Condensed Consolidated Interim Statements of Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Expense				
Amortization (note 3)	-	2,490	-	4,980
Exploration (note 4)	63,420	109,799	176,820	199,855
General and administration	67,468	83,359	141,482	170,889
Investor relations	695	1,045	9,173	8,761
Professional fees	84,433	74,706	199,525	158,970
Salaries and benefits	125,313	244,048	480,668	483,495
Travel and accommodation	-	43,720	1,042	58,595
	341,329	559,167	1,008,710	1,085,545
Other (income) expense				
Interest income	(43,904)	(36,474)	(88,233)	(114,018)
Foreign exchange loss (gain)	91	534	(744)	678
Impairment loss	39,790	-	77,659	-
	(4,023)	(35,940)	(11,318)	(113,340)
Net loss for the period	337,306	523,227	997,392	972,205
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	(15,311)	(3,827)	(7,655)	15,311
Exchange difference on translating foreign operations	768	46,969	5,611	(1,638)
	(14,543)	43,142	(2,044)	13,673
Total comprehensive loss for the period	322,763	566,369	995,348	985,878
Loss per share – basic and diluted	0.00	0.00	0.01	0.01
Weighted average number of shares outstanding - basic and diluted	131,168,368	131,168,368	131,168,368	131,168,368

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

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, 2014	63,540,233	7,374,187	(66,613,142)	(370,456)	34,449	3,965,271
Loss for the period	-	-	(972,205)	-	-	(972,205)
Other comprehensive income (loss)	-	-	-	1,638	(15,311)	(13,673)
Balance as at June 30, 2015	63,540,233	7,374,187	(67,585,347)	(368,818)	19,138	2,979,393
Loss for the period	-	-	(2,401,239)	-	-	(2,401,239)
Other comprehensive income (loss)	-	-	-	25,657	3,828	29,485
Balance as at December 31, 2015	63,540,233	7,374,187	(69,986,586)	(343,161)	22,966	607,639
Loss for the period	-	-	(997,392)	-	-	(997,392)
Other comprehensive income (loss)	-	-	-	(5,611)	7,655	2,044
Balance as at June 30, 2016	63,540,233	7,374,187	(70,983,978)	(348,772)	30,621	(387,709)

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

PNG Gold Corporation
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

	Six months ended June 30,	
	2016	2015
	$	$
Operating activities		
Net loss for the period	(997,392)	(972,205)
Adjustments for items not involving cash		
Amortization (note 4)	37,934	104,003
Accrued interest income	(77,742)	(102,593)
Impairment loss (note 5)	77,659	-
Effect of foreign exchange on cash	74,998	7,553
	(884,543)	(963,242)
Net change in non-cash working capital		
Accounts receivable	4,467	2,597
Prepaid expenses	53,430	38,712
Accounts payable and accrued liabilities	72,018	(4,674)
Net cash flows used in operating activities	(754,628)	(926,607)
Financing activities		
Loan receivable (note 5)	-	(67,004)
Net cash flows used in financing activities	-	(67,004)
Decrease in cash and cash equivalents during the period	(754,628)	(993,611)
Cash and cash equivalents, beginning of the period	832,747	2,774,907
Cash and cash equivalents, end of the period	78,119	1,781,296

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

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"). On February 16, 2016, the Company announced that it will not be proceeding with the Business Combination.

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. At June 30, 2016, the Company had a working capital deficit of $1,048,908, had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the six months ended June 30, 2016, the Company reported a comprehensive loss of $995,348 and as at June 30, 2016, had an accumulated deficit of $70,983,978. 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 condensed consolidated interim financial statements for the three and six months ended June 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.

The Company's address is P.O. Box 93070, Caulfield Village, West Vancouver B.C., V7W 3G4, 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, 2016. 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, 2015, which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. The accounting policies applied are the same as those applied in the Company's most recent annual financial statements which are filed under the Company's profile on SEDAR at www.sedar.com. The results for interim periods are not necessarily indicative of results for the entire year. The preparation of these unaudited condensed consolidated interim financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of expenses during the period. As a result, actual amounts may differ from those estimates.

These condensed consolidated interim financial statements for the three and six months ended June 30, 2016 were approved and authorized for issue by the Board of Directors on August 23, 2016.

(b) Principles of Consolidation

The condensed consolidated interim 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.

(c) 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

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(c) New Accounting Pronouncements (continued)

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
Foreign exchange movement	-	-	-	(85,693)	(85,693)
Balance as at June 30, 2016	-	-	8,328	695,874	704,202
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	-	-	-	37,934	37,934
Foreign exchange movement	-	-	-	(28,856)	(28,856)
Balance as at June 30, 2016	-	-	-	266,671	266,671
Carrying amounts					
Balance as at December 31, 2015	-	-	8,328	523,974	532,302
Balance as at June 30, 2016	-	-	8,328	429,203	437,531

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Allocation of amortization	$	$	$	$
Amortization	-	2,490	-	4,980
Exploration	18,660	57,923	37,934	99,023
Total amortization	18,660	60,413	37,934	104,003

(Expressed in Canadian dollars)

3. PROPERTY AND EQUIPMENT (continued)

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.

4. MINERAL INTERESTS

Mineral interests at June 30, 2016 comprise $177,392 for the Normanby mineral interest including $22,584 of foreign exchange decrease and $15,655 for the Sehulea mineral interest including $1,188 of foreign exchange decrease. 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	12,507	1,623	14,130
Consulting	5,781	900	6,681
Equipment	9,353	9,343	18,696
Legal	1,893	1,893	3,786
Transportation	3,057	1,019	4,076
Travel	501	167	668
Wages	12,935	2,448	15,383
Three months ended June 30, 2016	46,027	17,393	63,420
Three months ended March 31, 2016	80,842	32,558	113,400
Cumulative to December 31, 2015	25,329,630	2,397,342	27,726,972
Cumulative to June 30, 2016	25,456,499	2,447,293	27,903,792

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

(Expressed in Canadian dollars)

4. MINERAL INTERESTS (continued)

	Papua New Guinea		
	Normanby	Sehulea	Total
	$	$	$
Exploration expense:			
Administration	22,209	6,188	28,397
Consulting	596	-	596
Equipment	29,744	29,491	59,235
Legal	2,011	2,011	4,022
Transportation	2,284	761	3,045
Travel	150	50	200
Wages	11,686	2,618	14,304
Three months ended June 30, 2015	68,680	41,119	109,799
Three months ended March 31, 2015	55,635	34,421	90,056
Cumulative to December 31, 2014	25,052,975	2,210,325	27,263,300
Cumulative to June 30, 2015	25,177,290	2,285,865	27,463,155

	Papua New Guinea		
	Normanby	Sehulea	Total
	$	$	$
Exploration expense:			
Administration	36,124	9,345	45,469
Consulting	1,159	-	1,159
Equipment	50,226	49,937	100,163
Legal	9,140	9,140	18,280
Transportation	4,546	1,515	6,061
Travel	215	72	287
Wages	22,905	5,531	28,436
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 June 30, 2015	25,177,290	2,285,865	27,463,155

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 $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 is awaiting the results of its exploration license renewal applications.

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 June 30, 2016 and 2015, salaries to Key Management amounted to $118,675 and $175,833, respectively. For the six months ended June 30, 2016 and 2015, salaries to Key Management amounted to $378,535 and $349,941, respectively. During the six months ended June 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 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.

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. 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”);

(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.

(Expressed in Canadian dollars)

5. RELATED PARTY TRANSACTIONS (continued)

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.

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	77,659
Impairment	(77,659)
Balance as at June 30, 2016	-

5. RELATED PARTY TRANSACTIONS (continued)

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.

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 June 30, 2016 is $185,626 (2015 - $nil) of accrued directors' fees and $4,000 (2015 - $nil) 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:

As at June 30, 2016 and December 31, 2015, 131,168,368 commons shares were issued and outstanding.

(c) Stock Options and Share-Based Payments

For the three and six months ended June 30, 2016 and 2015, there were no share-based payments recognized.

A summary of the status of the Company's stock options as at June 30, 2016 and changes during the period 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
Outstanding and fully vested – June 30, 2016	3,775,000	0.36

(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.

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

(Expressed in Canadian dollars)

7. COMMITMENTS

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Operating activities				
Interest income received from banks	601	5,421	1,323	17,724
Investing activities				
Investment in VeroLube Inc.	-	-	-	4,780

9. GEOGRAPHICAL AREA INFORMATION

	Canada	Papua New Guinea	Total
	$	$	$
June 30, 2016			
Property and equipment	8,328	429,203	437,531
Mineral interests	-	193,047	193,047
Total assets	123,669	639,194	762,863
December 31, 2015			
Property and equipment	8,328	523,974	532,302
Mineral interests	-	216,819	216,819
Total assets	909,462	776,731	1,686,193

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	$	$	$	$
Net loss – Canada	268,333	406,960	811,571	758,885
Net loss – Papua New Guinea	68,973	115,252	185,821	211,461
Net loss - Australia	-	1,015	-	1,859
Total net loss	337,306	523,227	997,392	972,205