(Formerly Esrey Energy Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017 and 2016

(in Canadian dollars)

Esrey Resources Ltd.
(Formerly Esrey Energy Ltd.)
September 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Esrey Resources Ltd.

We have audited the accompanying consolidated financial statements of Esrey Resources Ltd. (formerly Esrey Energy Ltd.), which comprise the consolidated statements of financial position as at September 30, 2017 and September 30, 2016, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Esrey Resources Ltd. as at September 30, 2017 and September 30, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Comparative Information

Without modifying our opinion, we draw attention to Note 14 to the consolidated financial statements which indicates that the accumulated other comprehensive income and deficit information presented as at September 30, 2015 and September 30, 2016, has been restated.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(c) in the consolidated financial statements which describes that Esrey Resources Ltd. will be required to incur significant amounts of capital on its exploration and evaluation projects in order to meet the work commitments dictated by the terms of the concessions, determine whether commercially economical reserves exist, and if commercially economical reserves exist, to further develop the properties. As described in Note 2(c), Esrey Resources Ltd. has decided to not allocate significant resources to these properties until market conditions improve; in the meantime Esrey Resources Ltd. is seeking other alternatives such as farm-out arrangements or the sale of properties. In addition, Note 2(c) also describes that Esrey Resources Ltd. requires significant amounts of capital in order to develop its zinc operations and achieve commercial production. There is no assurance that funding will be available to the Company when needed, or if available, that this funding will be on acceptable terms. These conditions, along with other matters as set forth in Note 2(c) in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Esrey Resources Ltd.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

February 1, 2018
Vancouver, Canada

Esrey Resources Ltd.

(Formerly Esrey Energy Ltd.)

Consolidated statements of financial position

(Expressed in Canadian dollars)

	Note	**September 30, 2017**	September 30, 2016
			(Restated - Note 14)
ASSETS			
Current assets			
Cash and cash equivalents	16(b)	**$ 4,222,961**	$ 6,928,818
Amounts receivable	5(d)	**160,039**	166,321
Prepaid expenses and other deposits		**65,156**	90,485
		4,448,156	7,185,624
Non-current assets			
Construction in progress	7	**3,310,084**	-
Property, plant and equipment		**-**	28,302
Stockpile material rights	6	**4,969,701**	-
Exploration and evaluation assets	8	**-**	2,915,406
Investment in joint ventures	9	**117,228**	119,880
		$ 12,845,169	$ 10,249,212
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5(d),17	**$ 770,818**	$ 390,211
Loans payable	10	**1,848,747**	231,893
		2,619,565	622,104
Equity			
Share capital	11	**115,163,946**	110,392,414
Contributed surplus		**13,325,274**	13,082,340
Accumulated other comprehensive income		**8,036,449**	8,207,526
Non-controlling interest	12	**(293,966)**	(161,575)
Deficit		**(126,006,099)**	(121,893,597)
		10,225,604	9,627,108
		$ 12,845,169	$ 10,249,212

Going concern (Note 2(c))

Commitments (Notes 6(c), 10(b) and 21(c))

Subsequent events (Notes 10(b) and 21)

Approved and authorized for issue by the Board on January 29, 2018.

(Signed) "Paul Larkin" — Director

(Signed) "David Cohen" — Director

See the accompanying notes to these consolidated financial statements.

Esrey Resources Ltd.

(Formerly Esrey Energy Ltd.)

Consolidated statements of comprehensive loss

(Expressed in Canadian dollars, except per share amounts)

	Note	**Year ended September 30, 2017**	Year ended September 30, 2016
Expenses:			
Depreciation		**$ 9,846**	$ 11,704
General and administrative expenses		**345,935**	367,751
Professional fees		**692,130**	804,612
Share-based payments	11(c)	**52,850**	34,724
Travel and business development		**103,912**	6,467
		(1,204,673)	(1,225,258)
Other income (expenses):			
Interest income		**6,357**	3,585
Other income		**16,210**	12,860
Loss from disposal of equipment		**-**	(1,883)
Loss from investment in joint venture		**(2,648)**	(4,980)
Write-down of exploration and evaluation assets	8(a)	**(2,889,392)**	-
Write-down of property, plant and equipment		**(18,456)**	-
Foreign exchange loss		**(139,695)**	(208,191)
		(3,027,624)	(198,609)
Loss for the period before income tax		**(4,232,297)**	(1,423,867)
Income tax expense	13	**-**	(3,201)
Net loss for the year		**$ (4,232,297)**	$ (1,427,068)
Attributable to:			
Non-controlling interest	12	**(119,795)**	(60,917)
Equity shareholders of the Company		**(4,112,502)**	(1,366,151)
		$ (4,232,297)	$ (1,427,068)
Other comprehensive income (loss)			
Foreign currency translation loss attributed to non-controlling interest	12	**(12,596)**	(47,323)
Foreign currency translation loss for equity shareholders of the Company		**(171,077)**	(201,922)
		$ (4,415,970)	$ (1,676,313)
Loss per share			
Basic and diluted attributable to equity shareholders of the Company	15	**$ (0.09)**	$ (0.03)

See the accompanying notes to the consolidated financial statements.

Esrey Resources Ltd.

(Formerly Esrey Energy Ltd.)

Consolidated statements of changes in equity

(Expressed in Canadian dollars, except for share amounts)

	Number of shares		Share capital		Contributed surplus		Accumulated other comprehensive income (loss)		Non-controlling interest		Deficit		Total equity
Balance, September 30, 2015 (Restated - Note 14)	**39,762,771**	**$**	**110,392,414**	**$**	**13,047,616**	**$**	**8,409,448**	**$**	**(53,335)**	**$**	**(120,527,446)**	**$**	**11,268,697**
Share-based payments	-		-		34,724		-		-		-		34,724
Net loss for the year	-		-		-		-		(60,917)		(1,366,151)		(1,427,068)
Foreign currency translation	-		-		-		(201,922)		(47,323)		-		(249,245)
Balance, September 30, 2016 (Restated - Note 14)	**39,762,771**	**$**	**110,392,414**	**$**	**13,082,340**	**$**	**8,207,526**	**$**	**(161,575)**	**$**	**(121,893,597)**	**$**	**9,627,108**
Acquisition of Power Zinc (Note 6 and 11(b))	39,762,769		4,771,532		-		-		-		-		4,771,532
Share-based payments (Note 11(c))	-		-		242,934		-		-		-		242,934
Net loss for the year	-		-		-		-		(119,795)		(4,112,502)		(4,232,297)
Foreign currency translation	-		-		-		(171,077)		(12,596)		-		(183,673)
Balance, September 30, 2017	**79,525,540**	**$**	**115,163,946**	**$**	**13,325,274**	**$**	**8,036,449**	**$**	**(293,966)**	**$**	**(126,006,099)**	**$**	**10,225,604**

See the accompanying notes to the consolidated financial statements.

Esrey Resources Ltd.
(Formerly Esrey Energy Ltd.)
Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Note	**Year ended September 30, 2017**	Year ended September 30, 2016
Operating activities			
Loss before income taxes		**$ (4,232,297)**	$ (1,423,866)
Adjustments to net loss for non-cash items			
Depreciation		**9,846**	11,704
Share-based payments	11(c)	**52,850**	34,724
Interest income		**(6,357)**	(3,585)
Loss from disposal of equipment		**-**	1,883
Loss from investment in joint venture		**2,648**	4,980
Write-down of exploration and evaluation assets	8(a)	**2,889,392**	-
Write-down of property, plant and equipment		**18,456**	-
Foreign exchange loss		**139,695**	214,432
Net changes in non-cash working capital items	16	**77,451**	284,737
		(1,048,316)	(874,991)
Adjustments to net loss for cash items			
Interest income received		**2,621**	3,585
Realized foreign exchange (gain) loss		**(59,668)**	6,241
Taxes (paid) received	13	**(67)**	1,251,887
		(1,105,430)	386,722
Investing activities:			
Construction in progress	6, 17	**(1,132,890)**	-
Acquisition-related costs of Power Zinc	6	**(198,169)**	-
Exploration and evaluation expenditures		**-**	(82,982)
		(1,331,059)	(82,982)
Foreign exchange effect on cash and cash equivalents		**(269,368)**	(157,130)
Net (decrease) increase in cash and cash equivalents		**(2,705,857)**	146,610
Cash and cash equivalents, beginning of year		**6,928,818**	6,782,208
Cash and cash equivalents, end of year		**$ 4,222,961**	$ 6,928,818

See the accompanying notes to the consolidated financial statements.

1. Nature of operations

Esrey Resources Ltd. (the “Company” or "Esrey") was incorporated on February 24, 2000 in the Province of British Columbia, Canada and changed its name from Esrey Energy Ltd. to Esrey Resources Ltd. on October 16, 2017. The Company’s common shares trade under the symbol “ESR” on the TSX Venture Exchange.

The Company was engaged in activities related to its oil and gas properties in Papua New Guinea for the year ended September 30, 2017. On July 21, 2017, the Company acquired the rights to take delivery of zinc stockpile material located in Kosovo (Note 6) and is currently focusing on developing processes to efficiently produce zinc and other metals from this and other third party stockpiles.

The address of Esrey's registered office is Suite 250, 1075 West Georgia Street, Vancouver, British Columbia, V6E 3C9.

2. Basis of presentation and going concern

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and were approved and authorized for issuance by the Board of Directors as of January 29, 2018.

(b) Basis of measurement

These consolidated financial statements have been prepared on an historical cost basis, and are presented in Canadian dollars, unless otherwise indicated.

The preparation of financial statements in accordance with IFRS requires management to make certain critical accounting estimates and exercise judgment in applying the Company’s accounting policies. As a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period involves the use of estimates, which have been made using careful judgment. Actual results may differ from these estimates. The areas involving a higher degree of judgment, complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(c) Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company’s oil and gas properties in Papua New Guinea (Note 8) have been in the exploration stage and have generated no revenues to date. As at September 30, 2017, the carrying amount of exploration and evaluation assets in the Company’s consolidated financial statements is $Nil (September 30, 2016 - $2,915,406). The Company will be required to incur significant amounts of capital on these properties in order to meet the work commitments dictated by the terms of the concessions, determine whether commercially economical reserves exist and, if commercially economical reserves exist, to further develop the properties. If the Company does not meet the work commitments dictated by the terms of a concession and is not able to obtain a variance or extension, the Company risks losing the concession.

2. Basis of presentation and going concern (continued)

(c) Going concern (continued)

Due to the ongoing slump in the global oil and gas market, the Company has decided not to allocate significant resources to these properties until conditions improve sufficiently. If conditions improve sufficiently, the Company will require significant amounts of capital in order to carry out any meaningful activities in Papua New Guinea. There can be no assurance that funding will be available to the Company when needed or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may not be able to further develop its exploration and evaluation projects.

Even if adequate funds are available, there is no guarantee that the Company will meet the work commitments dictated by the terms of the concessions (Note 8). If the Company does not meet the work commitments dictated by the terms of a concession and is not able to obtain an amendment or extension, the Company risks losing the concession.

During the year ended September 30, 2017, the Company has sought other alternatives such as farm-out arrangements or the sale of properties in order to generate cash from these properties, but it has been unsuccessful to date.

On July 21, 2017, the Company acquired the rights to take delivery of zinc material stockpiles located in Kosovo (Note 6) with a view to develop processes to efficiently produce zinc and other metals from this stockpile and other third party stockpiles. The Company commissioned a pilot plant in January 2018 in Macedonia which it intends to use to test and recover zinc and other materials from feed stock located in Macedonia and other Balkan countries. To process such feed stocks commercially, the Company plans to construct a modular zinc recovery plant. The Company has commenced a study to evaluate options and potential capital costs. The Company will require significant amounts of capital in order to build the plant and achieve commercial production.

There can be no assurance that funding will be available to the Company when needed or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may not be able to develop its zinc operations and achieve commercial production. Even if adequate funds are available, there is no guarantee that the Company will achieve commercial production to generate future cash flows. As the Company presently does not have sufficient funds to develop its zinc operations, material uncertainties exist with respect to the recovery of costs previously spent on capital projects and the ability to achieve commercial production. As a result, material uncertainties exist that may cast significant doubt with respect to the Company’s ability to continue as a going concern.

Management believes the use of the going concern assumption is appropriate based upon the assumption that the Company will have sufficient cash resources to meet its ongoing obligations as they become due in the normal course of operations. The Company has successfully raised financing in the past and believes that it may be able to raise the necessary financing in the future.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Therefore, the Company may be required to realize its assets and discharge its liabilities in other than the normal course of business at amounts different from those reflected in the consolidated financial statements.

3. Summary of significant accounting policies

The Company's principal accounting policies have been outlined below.

(a) Consolidation principles

Subsidiaries are entities controlled by the Company. Control exists when an entity is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Please refer to Note 5(a) for further details on the Company's subsidiaries.

(b) Associates and joint arrangements

Investments in which the Company does have significant influence but not control are classified as equity investments and are accounted for using the equity method, where the Company's share of income or losses are recognized in income or loss and its share of other comprehensive income or loss is recognized in other comprehensive income or loss. When the Company's cumulative share of losses equals or exceeds the Company's carrying amount of the investment, the Company does not recognize further losses unless the Company has incurred obligations or made payments on behalf of the investment. After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss. Any loss is recognized in income or loss.

A joint arrangement is a contractual arrangement where two or more parties undertake an economic activity that is subject to joint control. Joint control exists when the parties involved in the contractual arrangement agree to share control over the economic activity, and the financial and operating decisions are agreed to be made by unanimous consent of the parties sharing control.

There are two types of joint arrangements: joint operations and joint ventures. A joint operation exists when the parties with joint control have rights to the assets and the obligations for the liabilities. A joint venture exists when the parties with joint control have the rights to the net assets of the arrangement.

The Company has an interest in three joint ventures and accounts for these investments using the equity method. For further details on the Company's joint ventures, please refer to Note 5(b).

(c) Foreign currency translation

(i) Functional and presentation currency

The Company's presentation currency is the Canadian dollar ("$"). Several of Esrey's subsidiaries transact in currencies other than the Canadian dollar. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. During the year ended September 30, 2017, the Company has subsidiaries where the functional currency has been determined to be the United States dollar and Papua New Guinea kina.

3. Summary of significant accounting policies (continued)

(c) Foreign currency translation *(continued)*

(i) Functional and presentation currency (continued)

The assets and liabilities included in these consolidated financial statements are translated from functional currency to the Company's presentation currency using the exchange rates at period end. Income, expenses and cash flow items included in these consolidated financial statements are translated from functional currency to the Company's presentation currency using the exchange rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the period). The differences arising upon translation from the functional currency to the reporting currency are recorded as foreign currency translation adjustment in other comprehensive income ("OCI") and remain in OCI until a subsidiary is partially or fully disposed of. Upon disposal, the corresponding foreign currency translation adjustment is removed from OCI and is recognized as a realized foreign exchange gain or loss in net income.

(ii) Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

(d) Financial instruments

(i) Financial assets

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

Financial assets classified as held to maturity or loans and receivables are measured at amortized cost. Cash and accounts receivable are classified as loans and receivables. No assets are classified as held to maturity.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are not temporary. The Company does not have any financial assets classified as available for sale.

Transaction costs associated with assets recognized as fair value through profit or loss are expensed as incurred. Transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. As at September 30, 2017, and 2016, the Company does not have any financial assets classified as fair value through profit or loss.

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

3. Summary of significant accounting policies (continued)

(d) Financial instruments *(continued)*

(i) Financial assets (continued)

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities. Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and current liabilities are classified as other financial liabilities.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash on deposit and highly liquid investments with an original maturity date of less than one year.

(f) Construction in progress

Projects under construction are stated at cost, are transferred to property, plant and equipment when completed, and are not depleted or depreciated until ready for their intended use.

(g) Stockpile material rights

Stockpile material rights represent the contractual rights to the delivery of the zinc stockpile material to the Company for processing into zinc and other metals, or for other uses, including the sale to outside third parties.

At the time of delivery, the Company is required to pay the owner of the stockpile material US$60 per tonne delivered. These costs will be recognized by the Company as costs of inventory at the time of delivery.

The stockpile material rights have no term, are stated at cost less accumulated amortization and impairment, if any. Stockpile material rights will be amortized on a unit of production basis when the material is delivered to the Company.

3. Summary of significant accounting policies (continued)

(h) Exploration and evaluation assets

Exploration and evaluation assets includes capitalized costs related to exploration and evaluation expenditures and capitalized costs related to the oil and gas licenses.

(i) License and property acquisition expenditures

Pre-license expenditures are expensed in the period in which they are incurred. Exploration license and leasehold property acquisition expenditures are intangible assets that are capitalized as exploration and evaluation costs and are reviewed at each reporting date for indications of potential impairment. Once proven reserves are discovered, technical feasibility and commercial viability are established and the Company has decided to proceed with development, this capitalized expenditure is transferred to developed and producing assets under property, plant and equipment. At the time of transfer to property, plant and equipment, or if indicators of impairment are present, the asset's recoverable amount is estimated. If the asset's carrying value exceeds its recoverable amount, an impairment loss is recorded.

(ii) Depreciation, depletion, and amortization

Unproven property costs and major projects under construction or development are not depreciated or depleted until commercial production commences. The Company depletes oil and gas capitalized costs using the unit-of-production method. Development drilling, equipment costs and other facility costs are depleted over remaining proved developed reserves. Other facilities, plant and equipment which have significantly different useful lives than the associated proved reserves are depreciated in accordance with the asset's future use.

Depreciation methods, useful lives and residual values are reviewed annually, with any amendments considered to be a change in estimate accounted for prospectively.

(i) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and, where necessary, write-downs for impairment. Depreciation is calculated using the following rates and methods:

Office furniture, equipment, computers and software	15% - 50% double declining
Vehicles	30% double declining

(j) Impairment and reversal of impairment

(i) Impairment

At each reporting date, the Company assesses whether there is an indication that stockpile material rights, exploration and evaluation assets, and property, plant and equipment may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs of disposal or value-in-use. In assessing value-in-use, the estimated future cash flows of the asset are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. When an asset does not generate separately identifiable cash flows, the impairment assessment is completed on cash generating units ("CGUs"), which are the smallest grouping of assets that generate independent, identifiable cash inflows. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered to be impaired and is written down to its recoverable amount.

3. Summary of significant accounting policies (continued)

(j) Impairment and reversal of impairment *(continued)*

(ii) Reversal of impairment

For stockpile material rights, exploration and evaluation assets and plant, property and equipment, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, an estimate of the assets or CGU's recoverable amount is completed. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

(k) Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligations at the reporting date.

(l) Income taxes

Income tax expense is comprised of current and deferred income taxes. Current and deferred income taxes are recognized in income or loss, except for income taxes relating to items recognized directly in equity or other comprehensive income.

Current income tax, if any, is the expected amount payable or receivable on the taxable income or loss for the year, calculated in accordance with applicable taxation laws and regulations, using income tax rates enacted or substantively enacted at the end of the reporting period and any adjustments to amounts payable or receivable relating to previous years.

Deferred income taxes are provided for using the asset and liability method based on temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using income tax rates and income tax laws and regulations that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced or not recognized.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that do not affect accounting or taxable profit;
- goodwill; and
- investment in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

3. Summary of significant accounting policies (continued)

(l) Income taxes *(continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(m) Basic and diluted income (loss) per share

Basic income (loss) per share is computed by dividing the income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted income (loss) per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. When potentially dilutive securities are anti-dilutive, there is no difference between the basic and diluted income (loss) per share.

(n) Comprehensive income (loss) and non-controlling interest

Non-controlling interest is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income (loss) refers to items recognized in comprehensive income (loss) that are excluded from net income (loss).

(o) Share capital

(i) Share-based payments

The share option plan allows the Company's directors, officers, employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as share-based payments with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value, measured at the grant date, of equity-settled share-based payments is charged to profit or loss over the period (or capitalized to the appropriate asset class corresponding to where employees' salaries and costs are capitalized) for which the benefits of employees and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. The fair value of awards is calculated using the Black-Scholes option pricing model and management considers the following factors:

- Exercise price
- Expected life of the award
- Expected volatility
- Current market price of the underlying shares
- Risk-free interest rate
- Expected forfeitures

3. Summary of significant accounting policies (continued)

(o) Share capital *(continued)*

(i) Share-based payments (continued)

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

If and when the stock options or warrants are ultimately exercised, the applicable amounts of their fair values in the reserves account are transferred to share capital.

(ii) Share issuance costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to abandoned share subscriptions are charged to operations.

(p) Application of new and revised IFRS

Effective October 1, 2016, there were no material new or revised IFRS that were issued by the IASB that were adopted by the Company.

(q) Future accounting pronouncements

Certain pronouncements have been issued by the IASB that are mandatory for the Company for accounting years beginning after October 1, 2017 or later years as discussed below.

Accounting standards issued but not yet effective:

(i) Amended standard IFRS 2, *Share-based Payments*
The amendments to IFRS 2 intend to eliminate diversity in practice related to the classification and measurement of share-based payment transactions. Effective for annual periods on or after January 1, 2018.

(ii) Amended standard IFRS 7, *Financial Instruments: Disclosures*
The amendments to IFRS 7 outline the disclosures required when initially applying IFRS 9 *Financial Instruments*. Effective for annual periods on or after January 1, 2018.

(iii) New standard IFRS 9, *Financial Instruments*
This new standard is a replacement of IAS 39 *Financial Instruments: Recognition and Measurement.* Effective for annual periods on or after January 1, 2018.

3. Summary of significant accounting policies (continued)

(q) Future accounting pronouncements *(continued)*

(iv) New standard IFRS 15*, Revenue from Contracts with Customers*
IFRS 15 provides guidance on how and when revenue from contracts with customers is to be recognized, along with new disclosure requirements in order to provide financial statement users with more informative and relevant information. Effective for annual periods on or after January 1, 2018.

(v) New standard IFRS 16*, Leases*
IFRS 16 replaces existing lease accounting guidance. All leases will be required to be reported on the statement of financial position unless certain requirements for exclusion are met. Effective for annual periods commencing on or after January 1, 2019.

The Company has not early adopted these new and amended standards and is currently assessing the impact that these standards will have on the financial statements.

4. Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, revenue and expenses. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in net income (loss) and/or comprehensive income (loss) in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Judgments and estimates made by management in the application of IFRS that have a significant effect on the financial statements are discussed below.

Critical accounting estimates

Share-based payments

The Company measures the cost of equity-settled transactions with employees based on the fair value of the equity instruments on the date of grant. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions used for estimating the fair value for share-based payment transactions are disclosed in Note 11(c).

4. Critical accounting estimates and judgments (continued)

Critical accounting judgments

(a) Stockpile material rights

The application of the Company's accounting policy for stockpile material rights requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the costs are capitalized, information becomes available suggesting that the recovery of the costs is unlikely, the amount capitalized is impaired in the statement of income (loss) in the year the new information becomes available.

(b) Business combinations

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 – Business Combinations. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business. Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisition of Power Zinc on July 21, 2017 did not meet the definition of a business and the transaction has been accounted for as an asset acquisition (Note 6).

(c) Determination of control of subsidiaries and joint arrangements

Judgement is required to determine when the Company has control of subsidiaries or joint control of joint arrangements. This requires an assessment of the relevant activities of the investee, being those activities that significantly affect the investee's returns, including operating and capital expenditure decision-making, financing of the investee, and the appointment, remuneration and termination of key management personnel; and when the decisions in relation to those activities are under the control of the Company or require unanimous consent from the investors. Judgement is also required when determining the classification of a joint arrangement as a joint venture or a joint operation through an evaluation of the rights and obligations arising from the arrangement. Changes to the Company's access to those rights and obligations may change the classification of that joint arrangement. Based on assessment of the relevant facts and circumstances, primarily, the requirement for unanimous agreement on management decisions relating to the financing and operation of the arrangement, the Company concluded that EERL Holdings met the criteria to be classified as a joint venture (Note 9).

(d) Assets held for sale and discontinued operations

The Company applies judgement to determine whether an asset or disposal group is available for immediate sale in its present condition and that its sale is highly probable and therefore should be classified as held for sale at the balance sheet date. Conditions that support a highly probable sale include the following: an appropriate level of management is committed to a plan to sell the asset or disposal group, an active program to locate a buyer and complete the plan has been initiated, the asset or disposal group has been actively marketed for sale at a price that is reasonable in relation to its current fair value, and the sale of the asset or disposal group is expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

4. Critical accounting estimates and judgments (continued)

Critical accounting judgments (continued)

(d) Assets held for sale and discontinued operations (continued)

The Company also applies judgement to determine whether a component of the Company that either has been disposed of or is classified as held for sale meets the criteria of a discontinued operation. The key area that involves management judgement in this determination is whether the component represents a separate major line of business or geographical area of operation.

(e) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the applicable tax laws in the jurisdictions in which the Company operates. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. However, the final outcome may result in a materially different outcome.

In determining its current and deferred tax provisions, the Company must apply judgment when interpreting and applying complex and changing tax laws and regulations. The determination of the appropriate application of these laws and regulations by tax authorities may remain uncertain for several years. The final outcome of such determination could result in amounts different from those initially recorded and would impact current or deferred tax expense in the period in which a determination is made. The determination of deferred tax asset recognition also requires judgment regarding the Company's ability to more likely than not utilize that asset.

(f) Determination of CGUs

A CGU is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations.

(g) Functional currency

The Company's functional currency is based on the primary economic environment in which it operates and is based on an analysis of several factors including which currency principally affects sales prices of products sold by the Company, which currency influences the main expenses of providing services, in which currency the Company keeps its receipts from operating activities and in which currency the Company has received financing. Management used its judgment to assess these factors.

4. Critical accounting estimates and judgments (continued)

Critical accounting judgments (continued)

(h) Disposal of an entity

The Company has exited from certain foreign regions where it has conducted oil and gas activities and has wound up certain subsidiaries and withdrawn from joint ventures related with these activities. The Company considers the disposal of an entity for accounting for the related OCI (Note 3(c)(i)) to be when the oil and gas activities have substantively ceased, the operations are inactive, and there are no immediate plans to recommence activities. At such time, the Company considers it has realized its investment in these foreign operations and that the operations have been in substance liquidated, even if the formal process of liquidating the legal body in which the foreign operation was carried on had not occurred at that time.

(i) Contingencies

Due to the nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event that management's estimates of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements on the date such changes occur.

5. Subsidiaries and joint ventures

(a) *Subsidiaries*

Name of subsidiary	Principal activity	Place of incorporation and operation[1]	Proportion of ownership interest and voting power held at September 30, 2017	2016
LNG Energy (BC) Ltd. ("LNG BC")	Holding Company	BC	**100%**	100%
LNG Exploration Ltd. ("LNG Exploration")	Holding Company	BC	**100%**	100%
Kaynes Capital S.a.r.l. ("Kaynes")	Holding Company	Luxembourg	**0%**	100%
LNG Energy (PNG) Limited ("LNG PNG")	Operating Company	PNG	**100%**	100%
LNG Energy No. 2 Limited ("LNG No. 2")	Operating Company	PNG	**100%**	100%
Basin Tishomingo Holdings Inc. ("BTH")	Holding Company	Delaware	**100%**	100%
EERL (BVI) Ltd. ("EERL BVI")	Holding Company	BVI	**100%**	100%
Evolution Petroleum Corporation ("EPC")	Holding Company	BVI	**100%**	100%
Esrey Zinc Holdings Ltd. ("EZH")	Holding Company	Barbados	**100%**	N/A
Esrey Zinc Sales Ltd. ("EZS")	Holding Company	Barbados	**100%**	N/A
Power Zinc Limited ("Power Zinc")	Operating Company	Malta	**100%**	N/A
Telemu No. 18 Limited ("Telemu")	Operating Company	PNG	**84.25%**[2]	84.25%

(1) The following abbreviations have been used: British Columbia ("BC"), Papua New Guinea ("PNG"), British Virgin Islands ("BVI").
(2) The Company has a direct 68.5% ownership interest and holds an additional 15.75% through its interest in EERLHoldings (BVI) Ltd.

5. Subsidiaries, associates and joint ventures (continued)

(b) Joint ventures

Name of joint venture	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held on September 30,	
			2017	2016
Joyce Podlasie LLC ("Joyce")	Holding Company	Delaware	**0%**	50%
Maryani Podlasie LLC ("Maryani")	Holding Company	Delaware	**0%**	50%
EERL Holdings (BVI) Ltd. ("EERL Holdings") (Note 5(c))	Holding Company	BVI	**50%**	50%

(c) EERL Holdings (BVI) Ltd.

As at September 30, 2017, the Company holds a 50% interest in EERL Holdings. The remaining 50% ownership is owned by a third party. EERL Holdings owns 31.5% of Telemu. As at September 30, 2017, the investment in EERL Holdings is $117,228 (September 30, 2016 – $119,880) (Note 9).

(d) Included in accounts receivable as at September 30, 2017 and 2016 is US$100,000 (2017 - $124,800; 2016 - $131,170) from EERL Holdings. The amount is non-interest bearing and has no fixed date of repayment.

Included in accounts payable and accrued liabilities as at September 30, 2017 and 2016 is US$126,000 (2017 - $157,248; 2016 - $165,274) payable from Telemu to EERL Holdings. The amount is non-interest bearing and has no fixed date of repayment.

6. Asset acquisition

On July 21, 2017, the Company completed the acquisition of 100% of the shares of Power Zinc, a majority-owned subsidiary of PRG Plc. ("PRG"), a private Malta company at arm's length to the Company and its directors and officers at the time of the transaction (the "Acquisition"). As a result of the Acquisition, one of the principals and major shareholders of PRG became a director and a 10.2% shareholder of the Company.

The principal assets of Power Zinc included the contractual rights to the zinc Milosheve Stockpile Material (the "MSM"), located in Kosovo (Note 6(c)) and the construction in progress of a pilot metal recovery plant located in Macedonia (Note 7). As part of the arrangement with PRG, the Company verbally agreed with PRG that subsequent to the acquisition of Power Zinc, PRG would be contracted to complete the construction of the pilot metal recovery plant already under construction at a total construction cost of US$2,500,000 ($3,120,000).

6. Asset acquisition (continued)

(a) Total consideration for the acquisition of Power Zinc was comprised of the following:

Esrey common shares issued (39,762,769)[1]	$	4,771,532
Cash[2]		627,450
Acquisition related costs		198,169
Total consideration	**$**	**5,597,151**

(1) As consideration for the shares of Power Zinc, the Company issued a total of 39,762,769 shares, which shares were broadly distributed to the approximately 100 shareholders of PRG. On completion of the Acquisition, the Company had 79,525,540 shares issued and outstanding. On July 21, 2017, the closing price of Esrey's common shares on the TSX Venture Exchange was $0.12.
(2) The Company made a cash payment to PRG of US$500,000 ($627,450) in April 2017 as part of a verbal agreement to advance cash to PRG to fund the construction of the pilot metal recovery plant prior to the Company's acquisition of Power Zinc. This amount has been included in construction in progress in the statement of cash flows.

(b) The Company concluded that the acquired assets and liabilities did not constitute a business and accordingly the acquisition was accounted for as an asset acquisition. The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition:

Construction in progress (Note 7)	$	1,908,970
Stockpile material rights (Note 6(c))		4,969,701
Other current assets [1]		356,125
Short-term promissory note (Note 10(b))		(1,637,645)
Total identifiable net assets acquired	**$**	**5,597,151**

(1) Other current assets at the date of the Acquisition represents cash of Power Zinc held on its behalf by its parent PRG and recorded as a related party receivable. Prior to the acquisition of Power Zinc by the Company, Power Zinc did not have a bank account. Monies advanced to Power Zinc under the terms of the short-term promissory note (Note 10(b)) were paid to PRG. Subsequent to the Acquisition, PRG paid construction costs on behalf of Power Zinc and as at September 30, 2017, the balance owed by PRG to Power Zinc is $Nil.

(c) The stockpile material rights are contractual rights to the delivery of the zinc MSM to the Company for processing or for other uses, including the sale to outside third parties. The rights have no term. At the time of delivery of any portion of the stockpile to a location specified by the Company, the Company is required to pay the owner of the stockpile material a fixed price of US$60 per tonne delivered. As at September 30, 2017, the Company had not had any MSM material delivered to the Company.

The MSM is contained in a storage area located near the village of Milosheve, approximately eight kilometers north of Pristina, Kosovo. The MSM originated from stockpile dumps related to zinc processing activities in the Kosovo area. The MSM has been separated into two stockpiles, the large one covering approximately 9,000m^2 and 1,000m^2, for a total area of one hectare. The average height of the stockpiled material is approximately 2.5m. The estimated total volume of the stockpile material is approximately 25,000m^3. Based on stockpile volume calculations and sampling results, the Company estimates an exploration target of between 100,000 and 120,000 tonnes at a zinc grade ranging between 22% and 24%. The potential tonnages and grades are conceptual in nature. There has been insufficient exploration to define a current mineral resource and it is uncertain if further exploration will result in the MSM being delineated as a mineral resource. Laboratory testing to date indicate that commercial recovery of zinc using acid leaching is potentially viable.

7. Construction in progress

As at September 30, 2017, the Company was near the final stages of constructing a pilot metal recovery plant with an anticipated throughput of 1,800 tonnes per annum. As part of this plant, a new Company-owned laboratory has been commissioned for plant samples.

The pilot metal recovery plant is being constructed by PRG Plc., whose principal is a director and shareholder of the Company, at a cost of US$2,500,000 (Cdn.$3,120,000)(Notes 6 and 17). In addition, the Company also recorded $190,084 in construction in progress at September 30, 2017 relating to the value of stock options granted in August 2017 (Note 11(c)) to consultants who are involved in the construction of the pilot metal recovery plant and laboratory facilities.

The Company is completing the commissioning of the pilot metal recovery plant in January 2018 and intends to use these facilities to test and recover zinc and other materials from feed stock located in Macedonia and other Balkan countries. To process such feed stocks commercially, the Company plans to construct a modular zinc recovery plant. At this time, the Company has commenced a study to evaluate options and potential capital costs.

8. Exploration and evaluation assets

	Papua New Guinea	Other	Total
Cost			
Balance, September 30, 2015	**$ 49,910,304**	**$ 12,236,936**	**$ 62,147,240**
Additions	82,982	-	82,982
Foreign exchange movement	(5,855,580)	-	(5,855,580)
Balance, September 30, 2016	**$ 44,137,706**	**$ 12,236,936**	**$ 56,374,642**
Foreign exchange movement	(393,842)	-	(393,842)
Balance, September 30, 2017	**$ 43,743,864**	**$ 12,236,936**	**$ 55,980,800**
Accumulated depletion and impairment losses			
Balance, September 30, 2015	**$ 46,697,708**	**$ 12,236,936**	**$ 58,934,644**
Foreign exchange movement	(5,475,408)	-	(5,475,408)
Balance, September 30, 2016	**$ 41,222,300**	**$ 12,236,936**	**$ 53,459,236**
Write-down	2,889,392	-	2,889,392
Foreign exchange movement	(367,828)	-	(367,828)
Balance, September 30, 2017	**$ 43,743,864**	**$ 12,236,936**	**$ 55,980,800**
Carrying amounts			
Carrying value at September 30, 2015	$ 3,212,596	$ -	$ 3,212,596
Carrying value at September 30, 2016	$ 2,915,406	$ -	$ 2,915,406
Carrying value at September 30, 2017	**$ -**	**$ -**	**$ -**

8. Exploration and evaluation assets (continued)

(a) Papua New Guinea

(i) Business transactions

On April 22, 2013, the Company closed a farm-in agreement with Heritage Oil Plc (“Heritage”) in which Heritage obtained an 80% participating interest in both Petroleum Prospecting License (“PPL”) 486 and Petroleum Retention License (“PRL”) 13, subject to the fulfillment of certain work commitments, in exchange for payment of $7,522,079.

In May 2014, Heritage informed the Company it had acquired a total of 235km of seismic, of which 215km was on PPL 486 and 20km was on PRL 13. This satisfied the requirements of the second tranche of the farm-in agreement and ensured Heritage retained a minimum 40% interest in PPL 486 and PRL 13. In order for Heritage to retain its additional 40% interest, Heritage was required to drill and complete one exploration well in PPL 486 to a depth sufficient to test identified exploration targets.

On May 30, 2014, the Company’s subsidiaries, Telemu No. 18 Limited (“Telemu”) and LNG Energy (PNG) Limited (“LNG PNG”) entered into an amendment to the farm-in agreement with Heritage. In exchange for the extension of the deadline to spud the first exploration well from October 1, 2014 to December 31, 2015, the farm-in agreement included, among other items, a cash payment of US$2,500,000 and additional carry provisions in favor of Telemu.

On September 22, 2015, the Company was notified by Heritage that it would not be funding the drilling of the first exploration well on PPL 486 and therefore would not fulfill its final commitment under the farm-in agreement. Under the farm-in agreement, Heritage had the option to withdraw from PPL 486 and PRL 13 licenses (the “Licenses”) or to retain a 40% participating interest in the Licenses. Heritage advised the Company that it wished to retain a 40% participating interest and as a result, re-transferred the other 40% participating interest in the Licenses back to Telemu and LNG PNG. In accordance with the farm-in agreement, Telemu and LNG PNG assumed operatorship of the Licenses.

On September 29, 2015, Telemu and LNG PNG filed the necessary documents with the Department of Petroleum and Energy (“DPE”) to assume operatorship of PPL 486 and PRL 13 with immediate effect. On November 11, 2015, the necessary documents were filed with the DPE for the re-transfer of a 40% interest in PPL 486 and PRL 13 back to Telemu and LNG PNG, respectively. These re-transfers require the Minister’s acknowledgement. As of the date of these financial statements, this acknowledgement has not been received.

On July 27, 2017, the DPE issued a letter advising that both PPL 486 and PRL 13 licenses were in good standing as of that date.

8. Exploration and evaluation assets (continued)

(a) Papua New Guinea (continued)

(ii) Licenses

At September 30, 2017, the Company held a 50.55% working interest in PPL 486 (formerly PPL 319), an 84.25% working interest in PPL 321, and a 60% working interest in PRL 13 through permits received from the Minister of Petroleum and Energy for Papua New Guinea (“Minister”).

PPL 486

PPL 486 was obtained in June 2014 and is the result of the top-filing of PPL 319. PPL 486 encompasses the same territory as PPL 319 did and has a six-year term along with conditional work and expenditure commitments.

On June 10, 2016, a variance was filed with the DPE requesting a change in the work program for PPL 486 resetting all requirements. As of the date of these financial statements, approval for the variance has not been received. Management believes that the variance will be approved by the Minister. If the variance application is unsuccessful, the DPE may cancel the license.

During the year ended September 30, 2017, the Company did not carry out any physical activities on PPL 486 but sought alternatives such as joint venture arrangements, farm-out arrangements or the sale of PPL 486. Discussions took place with various interested parties but none have been successful to date. As a result, the Company wrote down the carrying amount of $1,046,165 (2.6 million kina) with respect to PPL 486 in the quarter ended September, 30, 2017.

PRL 13

Effective June 2014, the Company was granted a three-year extension for PRL 13. The extension also carried with it certain commitments, including a commitment to acquire further seismic or drill a well by the end of the third year (2017) with a minimum gross expenditure of US$31 million. As of the date of these financial statements, these requirements have not been met. Accordingly, the Company wrote down the carrying amount of $1,843,227 (4.9 million kina) with respect to PRL 13 during the quarter ended September 30, 2017. If the Company does not proceed with any activity on PRL 13, the DPE may cancel the license.

PPL 321

The Company submitted an application to simultaneously surrender and top-file PPL 321 in August 2014, seeking a new six-year license. PPL 321 expired in November 2014 and, as at the date of these financial statements, the Company had not received a formal response from the DPE with regards to the top-filing application for PPL 321. On September 30, 2015, the Company wrote off the carrying amount of $883,760 (1.9 million kina) with respect to PPL 321, given that the granting of the license renewal remained outstanding.

8. Exploration and evaluation assets (continued)

(b) Poland

In 2014, the Company made the decision to exit its operations in Poland which were held through its subsidiary Kaynes and Joyce and Maryani joint ventures. The Wegrow concession expired in 2014. In 2015, the Company withdrew from its Polish investment in Saponis which held the Slupsk concession, and together with its joint venture partner San Leon Energy Plc, the Company relinquished the Ilawa concession.

9. Joint venture

EERL Holdings (BVI) Ltd.

As at September 30, 2017, the Company holds a 50% interest in EERL Holdings (BVI) Ltd ("EERL Holdings"). The remaining 50% ownership in EERL Holdings is owned by a third party. EERL Holdings owns 31.5% of Telemu. As at September 30, 2017, the investment in EERL Holdings is $117,228 (September 30, 2016 – $119,880).

Summarized financial information for EERL Holdings is set out below. This summarized information represents amounts shown in the joint venture's financial statements, is for disclosure purposes only, and is in accordance with IFRS and the Company's accounting policies.

(i) EERL Holdings's net assets

	September 30, 2017	September 30, 2016
Cash and cash equivalents	**$ 17,292**	$ 22,677
Accounts receivable from Telemu	**377,395**	396,658
Investment in Telemu	**-**	51,950
Accounts payable and accrued liabilities	**(126,297)**	(131,957)
Net assets	**$ 268,390**	$ 339,328

The accounts receivable from Telemu are denominated in US dollars (September 30, 2017 and 2016 – US$302,400), are non-interest bearing and have no fixed date of repayment.

The accounts payable and accrued liabilities include a payable to Telemu of $124,800 (September 30, 2016 - $131,170) which is denominated in US dollars (September 30, 2017 and 2016 – US$100,000) is non-interest bearing and has no fixed date of repayment.

(ii) EERL Holdings's statement of comprehensive loss

	Year ended September 30, 2017	Year ended September 30, 2016
Expenses	**$ (5,297)**	$ (9,960)
EERL Holdings' share of Telemu's loss	**(52,027)**	(121,833)
Net loss	**(57,324)**	(131,793)
Other comprehensive loss	**(13,614)**	(6,789)
Total comprehensive loss	**$ (70,938)**	$ (138,582)

9. Joint venture (continued)

(iii) Reconciliation of summarized financial information

The following table reconciles EERL Holdings' summarized financial information to the carrying value of the Company's interest in the joint venture.

		September 30, 2017		September 30, 2016
Opening net assets	**$**	**339,328**	$	477,910
Net loss		**(57,324)**		(131,793)
Other comprehensive loss		**(13,614)**		(6,789)
Closing net assets	**$**	**268,390**	$	339,328
Percentage interest in joint venture		**50.00%**		50.00%
Interest in joint venture		**134,195**		169,664
Investment in Telemu		**-**		(25,975)
Exchange losses on joint venture assets		**(16,967)**		(23,809)
Investment in joint venture	**$**	**117,228**	$	119,880

10. Loans payable

(a) Loan

As at September 30, 2017, the Company's subsidiary, Telemu, has a loan payable due to EERL Holdings of $220,107 (September 30, 2016 - $231,893). The loan is denominated in US dollars (September 30, 2017 and 2016 – US$176,400), is non-interest bearing and has no fixed date of repayment.

(b) Promissory Note

On June 25, 2017, prior to the acquisition by Esrey, Power Zinc entered into a short-term unsecured promissory note payable totaling up to US$1,500,000 with Eiger Holding AG ("Eiger"), a private Swiss company at arm's length to PRG, Power Zinc and its directors and officers. Amounts outstanding under the promissory note were guaranteed by PRG, were non-interest bearing, and were repayable by Power Zinc by October 20, 2017.

On July 21, 2017 and on September 30, 2017, the outstanding balance of the promissory note was US$1,305,000 ($1,637,645 at July 21, 2017, and $1,628,640 at September 30, 2017). On November 7, 2017, the Company repaid US$1,305,000 ($1,668,442) being the entire outstanding balance of the promissory note payable.

As part of the terms of the promissory note, Power Zinc entered into an exclusive sales and marketing agreement with Eiger which binds Power Zinc to appointing Eiger as the exclusive sales and marketing agent for all metal production from the MSM or metal production arising from the application of existing zinc refinery design, build, and commissioning engineering created by Power Zinc (the "Application of Engineering Technology"). Compensation to Eiger shall be a gross sales revenue percentage of 3% on all zinc products and 40% on all other products from the MSM, and 1% on all zinc products and 10% on all other products from projects or operations where the Application of Engineering Technology is employed.

11. Share capital

(a) Authorized

Unlimited number of common shares with no par value.

(b) Issuance of shares

On July 21, 2017, the Company completed the acquisition of 100% of the shares of Power Zinc, a majority-owned subsidiary of PRG Plc. (Note 6). As consideration for the shares of Power Zinc, the Company issued a total of 39,762,769 shares recorded at the then quoted market price of $0.12 per share, which shares were broadly distributed to the approximately 100 shareholders of PRG. On completion of the acquisition, the Company had 79,525,540 shares issued and outstanding.

(c) Share options

The changes in share options during the year ended September 30, 2017 and 2016 were as follows:

	September 30, 2017		September 30, 2016	
	Number of Options	**Average Exercise Price**	Number of Options	Average Exercise Price
Balance, beginning of the year	2,983,000	$0.10	3,312,500	$0.30
Granted	4,183,000	$0.125	-	-
Expired	-	-	(278,750)	$2.40
Forfeited	(66,500)	$0.10	(50,750)	$0.10
Balance, end of the year	**7,099,500**	**$0.11**	**2,983,000**	**$0.10**

On August 9, 2017, the Company granted 4,183,000 stock options to directors, officers and consultants of the Company exercisable at $0.125 per share. One-third of these options vested immediately, one-third will vest on February 9, 2018, and one-third will vest on August 9, 2018. The options expire on August 9, 2022. The value of the share-based payments associated with these options for the year ended September 30, 2017 was $242,934, of which $190,084 was capitalized to construction in progress (Note 7).

The fair value of the options granted is estimated at the time of the grant using the Black-Scholes option pricing model with the following assumptions:

	August 9, 2017
Exercise price per option	$0.125
Share price at date of grant	$0.125
Expected life	5 years
Risk-free interest rate	1.52%
Dividend yield	Nil
Expected volatility	214.11%
Estimated fair value per option	$0.12

11. Share capital (continued)

(c) Share options (continued)

During the year ended September 30, 2017, 11,500 and 55,000 stock options were forfeited at an exercise price of $0.12 and $0.095 respectively.

The following table summarizes information about outstanding and exercisable options at September 30, 2017.

Options outstanding	Options exercisable	Exercise price	Expiry date
859,500	859,500	$0.12	January 8, 2019
2,057,000	2,057,000	$0.095	April 2, 2020
4,183,000	1,394,334	$0.125	August 9, 2022
7,099,500	**4,310,834**		

The weighted average exercise price of options exercisable at September 30, 2017 is $0.11 per share (September 30, 2016 - $0.10 per share). The weighted average remaining life of exercisable options is 3.02 years (September 30, 2016 – 3.15 years).

12. Non-controlling interest

The Company has an 84.25% interest in Telemu, an oil and gas company incorporated and operating in PNG. 15.75% of Telemu's equity and total comprehensive loss is allocated to the non-controlling interest using the indirect method. The non-controlling interest is comprised of the following amounts:

Balance, September 30, 2015	**$**	**(53,335)**
Non-controlling interests' share of Telemu's loss		(60,917)
Foreign exchange translation		(47,323)
Balance, September 30, 2016	**$**	**(161,575)**
Non-controlling interests' share of Telemu's loss		(119,795)
Foreign exchange translation		(12,596)
Balance, September 30, 2017	**$**	**(293,966)**

13. Income tax

In March 2016, the Company received a US$946,950 ($1,251,887) tax refund in connection with the application of non-capital losses carried back to taxable income earned by a subsidiary in prior years.

The income tax recognized in profit or loss during the year ended September 30, 2017 and 2016, consists of tax expense. The statutory rate was 26% in 2017 (26% in 2016). The provision for income taxes reported differs from the amount computed by applying the Canadian federal and provincial income tax rates to the loss for the year before tax due to the following:

		September 30, 2017		September 30, 2016
				(restated)
Loss for the year before taxes	**$**	**(4,232,297)**	$	(1,423,867)
Statutory rates		**26.0%**		26.0%
Expected tax recovery		**(1,100,397)**		(370,205)
Difference in tax rates between foreign jurisdictions and Canada		**1,220**		12,339
Impact of impairment of exploration and evaluation assets		**751,242**		-
Impact of write-down of property, plant and equipment		**4,799**		-
Items not deductible for income tax purposes		**20,895**		11,145
Change in unrecognized tax benefit		**386,773**		159,068
Other		**(64,532)**		190,854
Income tax expense	$	-	$	3,201

Deferred tax assets have not been recognized for the following deductible temporary differences:

		September 30, 2017		September 30, 2016
				(restated)
Non-capital loss carry forwards	**$**	**119,997,786**	$	119,446,422
Capital loss carry forwards		**1,532,409**		1,532,409
Property, plant and equipment		**145,593**		117,291
Exploration and evaluation assets		**9,443,744**		8,675,517
Other		**2,706,825**		2,567,130
	$	**133,826,357**	$	132,338,769

Deferred tax assets have not been recognized as it is not probable that future taxable profits will be available to utilize the deferred tax assets.

The Company had non-operating losses in Canada and Papua New Guinea. The Company has total non-operating losses of approximately $120 million available to apply against future income for tax purposes. These losses expire between 2018 and 2037.

The Company's operations are conducted in a number of countries with complex tax legislation and regulations pertaining to the Company's activities. Any reassessment of the Company's tax filings by the tax authorities may result in material adjustments to net profit or loss, tax assets and operating loss carry-forwards. The Company provides for such reassessments when it is probable that a taxation authority will not sustain the Company's filing position and the amount of the tax exposure can be reasonably estimated.

14. Restatement of prior period amounts

In 2014, the Company made the decision to exit its operations in Poland which were held through its subsidiary Kaynes and Joyce and Maryani joint ventures (Note 8b). The Wegrow concession expired in 2014. In 2015, the Company withdrew from its Polish investment in Saponis which held the Slupsk concession, and together with its joint venture partner San Leon Energy Plc, the Company relinquished the Ilawa concession. During 2016, the Company dissolved its subsidiary Kaynes.

In 2015, the Company relinquished its oil and gas leases in the USA. During 2016, the Company dissolved a number of its USA subsidiaries including LNG Energy US Inc., BWB Exploration LLC, and Evolution Oil Group LLC.

As described in Note 4(h), The Company considers the disposal of an entity for accounting for the related OCI to be when the oil and gas activities have substantively ceased, the operations are inactive, and there are no immediate plans to recommence activities.

During the preparation of the consolidated financial statements for the year ended September 30, 2017, the Company determined that the corresponding foreign currency translation amounts related to the entities noted above had not been removed from OCI and recognized as a realized foreign exchange gain or loss in net loss in the consolidated statements of loss for the years ended September 30, 2014 and September 30, 2015. Accordingly, the Company recorded the following amounts to restate Accumulated other comprehensive income (loss) and Deficit as at September 30, 2015 in these consolidated financial statements:

	Accumulated other comprehensive income (loss)	Deficit
Poland	$ 2,862,364	$ (2,862,364)
U.S.A.	(2,412,175)	2,412,175
	$ 450,189	$ (450,189)

The effect of the restatement on the consolidated statements of financial position as at September 30, 2015 and September 30, 2016 is as follows:

	September 30, 2016			September 30, 2015		
	As reported	**Adjustment**	**Restated**	**As reported**	**Adjustment**	**Restated**
Accumulated other comprehensive income	$ 7,757,337	$ 450,189	$ 8,207,526	$ 7,959,259	$ 450,189	$ 8,409,448
Deficit	(121,443,408)	(450,189)	(121,893,597)	(120,077,257)	(450,189)	(120,527,446)

15. Loss per share

The weighted average number of ordinary shares for the purposes of diluted loss per share reconciles to the weighted average number of ordinary shares used in the calculation of basic loss per share as follows:

		Year ended September 30, 2017		Year ended September 30, 2016
Weighted average number of ordinary shares		**47,606,386**		39,762,771
Effect of dilutive securities				
Stock options		**276,583**		-
Diluted weighted average number of ordinary shares		**47,882,969**		39,762,771
Net loss attributable to equity shareholders	**$**	**(4,112,502)**	$	(1,366,151)
Loss per share - basic and diluted	**$**	**(0.09)**	$	(0.03)

As at September 30, 2017, the Company has 4,034,251 (September 30, 2016 – 2,983,000) potential ordinary shares that are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted loss per share.

The average market value of the Company’s shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the year during which the options were outstanding.

16. Supplemental cash flow disclosure

(a) The following tables provide further information with regards to the changes in non-cash working capital disclosed in the statement of cash flows:

		Year ended September 30, 2017		Year ended September 30, 2016
Amounts receivable and GST recoverable	**$**	**(4,350)**	$	(185,424)
Prepaid expenses and other deposits		**25,316**		164,916
Accounts payable and accrued liabilities		**56,485**		305,246
Net changes in non-cash working capital items	**$**	**77,451**	$	284,738
Relating to:				
Operating activities	**$**	**77,451**	$	284,738
Investing activities		**-**		-
Net changes in non-cash working capital items	**$**	**77,451**	$	284,738

(b) At September 30, 2017, the Company had cash of $1,009,327 (September 30, 2016 – $6,928,818) and cash equivalents of $3,213,634 (September 30, 2016 – $Nil).

(c) Other non-cash transactions that occurred during the year ended September 30, 2017 are disclosed in Notes 6(b), 11(c) and 17(a)(i).

17. Related party transactions

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Balances and transactions between the Company and its joint ventures are disclosed in Notes 5, 9, and 10. Details of the transactions between the Company and other related parties are disclosed below.

(a) Trading transactions

During the year ended September 30, 2017, the Company's related parties consisted of (a) private companies owned by executive officers and directors and (b) a private company owned by a family member of one of the Company's directors, as follows:

	Nature of transactions
TRG Resources Ltd.	Management
Maluti Services Limited	General and administrative, and travel and business development
PRG Plc.	Construction of pilot metal recovery plant
Pangea Management Corp.	Consulting

The Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors and their relatives.

	Note	**Year ended September 30, 2017**	Year ended September 30, 2016
Management fees		**$ 157,603**	$ 291,607
General and administrative expenses		**37,660**	26,809
Travel and business development		**80,315**	5,720
Consulting fees		**24,000**	34,000
Construction of pilot metal recovery plant (Note 7)	(i)	**1,211,030**	-

(i) As disclosed in Notes 6 and 7, as part of the arrangement with PRG, the Company verbally agreed with PRG that subsequent to the acquisition of Power Zinc, PRG would complete the construction of the pilot metal recovery plant in Macedonia already under construction at a total estimated construction cost of US$2,500,000 ($3,120,000). As at the date of Acquisition, PRG and Power Zinc had spent US$1,521,212 ($1,908,970) on the pilot metal recovery plant which they had funded through a promissory note from Eiger (Note 10(b)) and advance cash payments from the Company of US$500,000 ($627,450) (Note 6(a)). In the period from Acquisition to September 30, 2017, the Company made cash payments of US$405,000 ($492,985) to PRG. As disclosed in Note 6(b), US$283,788 ($356,125) of cash of Power Zinc held on its behalf by its parent PRG at Acquisition was spent by PRG on construction costs in the period from Acquisition to September 30, 2017. As at September 30, 2017, included in accounts payable and accrued liabilities are outstanding amounts due to PRG of US$290,000 ($361,920). These amounts are unsecured, non-interest bearing and due on demand. The amount disclosed in the table above reflects the fee amounts for construction services at the time PRG is a related party from date of Acquisition to September 30, 2017 of $1,211,030 ($492,985, $356,125, and $361,920).

17. Related party transactions (continued)

(b) Compensation of key management personnel

The remuneration of directors and other key members of management personnel during the years ended September 30, 2017 and 2016 were as follows:

	Note		**Year ended September 30, 2017**		Year ended September 30, 2016
Remuneration	(i)	**$**	**157,603**	$	291,607
Directors' fees		**$**	**37,174**	$	12,000
Share-based payments	(ii)		**81,017**		23,150
		$	**275,794**	$	326,757

(i) Remuneration includes management fees disclosed in Note 17(a).

(ii) Share-based payments are the fair value of options granted to key management personnel.

At September 30, 2017, the Company's subsidiary, Telemu, had a loan payable of $220,107 to EERL Holdings (September 30, 2016 - $231,893)(Note 10(a)).

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the year ended September 30, 2017 and 2016. Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at September 30, 2017 included directors' fees of $2,739 (September 30, 2016 - $Nil) and $Nil due to a private company controlled by a director of the Company (September 30, 2016 - $997).

18. Segmented information

Geographic Information

The Company's assets by geographic areas as at September 30, 2017 and 2016 are as follows:

	Papua New Guinea	**Kosovo and Macedonia**	**Canada**	**Total**
Cash and cash equivalents	$ 571,834	$ -	$ 3,651,127	**$ 4,222,961**
Other current assets	13,528	-	211,667	**225,195**
Construction in progress	-	3,310,084	-	**3,310,084**
Stockpile material rights	-	4,969,701	-	**4,969,701**
Investment in joint ventures	-	-	117,228	**117,228**
	$ 585,362	**$ 8,279,785**	**$ 3,980,022**	**$ 12,845,169**

18. Segmented information (continued)

September 30, 2016	Papua New Guinea	Poland	United States	Canada	Total
Cash and cash equivalents	$ 624,817	$ 10,270	$ 5,692,114	$ 601,617	$ 6,928,818
Other current assets	19,858	4,699	187,052	45,197	256,806
Exploration and evaluation assets	2,915,406	-	-	-	2,915,406
Property, plant and equipment	-	-	-	28,302	28,302
Investment in joint ventures	-	-	-	119,880	119,880
	$ 3,560,081	$ 14,969	$ 5,879,166	$ 794,996	$ 10,249,212

The Company's expenses and income by geographic area for the years ended September 30, 2017 and 2016 are as follows:

Year ended September 30, 2017	**Papua New Guinea**	**United States**	**Barbados**	**Canada**	**Total**
Net (loss) income	**$ (2,740,725)**	**$ 20,229**	**$ (134,171)**	**$ (1,377,630)**	**$ (4,232,297)**
Attributable to					
Non-controlling interest	$ (119,795)	$ -	$ -	$ -	**$ (119,795)**
Equity shareholders of the Company	(2,620,930)	20,229	(134,171)	(1,377,630)	**(4,112,502)**
	$ (2,740,725)	**$ 20,229**	**$ (134,171)**	**$ (1,377,630)**	**$ (4,232,297)**

Year ended September 30, 2016	Papua New Guinea	Poland	United States	Canada	Total
Net loss	$ (364,122)	$ (72,574)	$ (108,565)	$ (881,806)	$ (1,427,067)
Attributable to					
Non-controlling interest	$ (60,917)	$ -	$ -	$ -	$ (60,917)
Equity shareholders of the Company	(303,205)	(72,574)	(108,565)	(881,806)	(1,366,150)
	$ (364,122)	$ (72,574)	$ (108,565)	$ (881,806)	$ (1,427,067)

19. Capital management

The Company manages, as capital, the components of shareholders' equity. The Company's objectives when managing capital are to (i) safeguard its ability to continue as a going concern in order to develop its newly acquired zinc project and to keep its remaining oil and gas interests in good standing, and (ii) to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms, enter into joint venture arrangements on its zinc projects, sell or option its oil and gas properties for cash, or borrow, acquire or dispose of assets.

The Company's policy is to invest its cash in highly liquid, interest-bearing, fully guaranteed bank-sponsored instruments with maturities of a year or less from the date of acquisition. The Company is not subject to externally imposed capital requirements.

20. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and loans payable.

(a) Fair value of financial instruments

(i) Fair value estimation of financial instruments

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The carrying amount for cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities on the statement of financial position approximate their fair value due to the short-term to maturities of these financial instruments.

The carrying amount for loans payable approximates its fair value due to the short-term to maturity of this financial instrument.

(b) Financial risk management

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity and funding risk, and market risk. There have been no substantive changes in the Company's exposure to financial instrument risk, the Company's objectives, policies and processes for managing those risks or the methods used to measure them from previous years.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The overall objective of the Board is to set policies that seek to reduce the Company's risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

20. Financial instruments (continued)

(b) Financial risk management (continued)

(i) Credit risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk arises principally from the Company's cash and cash equivalents and amounts receivable. Cash and cash equivalents consist of cash on hand, deposits in major banks that are considered to be creditworthy, and highly liquid investments with an original maturity date of less than one year. Amounts receivable are comprised primarily of amounts due from a related party (Note 5(e)) and GST receivables from the government of Canada. The carrying values of the financial assets represent the maximum credit exposure.

(ii) Liquidity and funding risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and cash equivalents, which are invested in business accounts and are available on demand.

Funding risk is the risk that the Company may not be able to raise financing in a timely manner and on terms acceptable to management. There is no assurance that such financing will be available when, and if, the Company requires additional financing (Note 2(c)).

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The following table summarizes the Company's significant remaining contractual maturities for financial liabilities at September 30, 2017 and 2016.

September 30, 2017

	Less than 1 year	**1 - 5 years**	**Total**
Accounts payable and accrued liabilities	**$ 770,818**	**$ -**	**$ 770,818**
Loans payable (Note 10(b))	**1,848,747**	**-**	**1,848,747**
Total	**$ 2,619,565**	**$ -**	**$ 2,619,565**

September 30, 2016

	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	$ 390,211	$ -	$ 390,211
Loans payable	231,893	-	231,893
Total	$ 622,104	$ -	$ 622,104

The Company is party to two agreements which give rise to potential future financial liabilities. The amounts of the liabilities are currently undeterminable and depend on a number of factors, including the tonnes of MSM stockpile material delivered to the Company (Note 6(c)) and the tonnes of zinc and other metals produced from a full-scale metal processing plant that the Company intends to construct (Note 10(b)).

20. Financial instruments (continued)

(b) Financial risk management (continued)

(iii) Market risk

The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

(1) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. The Company has minimal exposure to interest rate fluctuations on its cash and cash equivalent balances due to current low market interest rates. The amounts due to related parties and the loans payable are non-interest bearing.

(2) Foreign currency risk

Some of the Company's exploration expenditures, certain acquisition costs, operating expenses and loans and accounts payable are denominated in the US dollar, Papua New Guinea kina, Macedonian denar and European Euro. The Company's exposure to foreign currency risk arises primarily on fluctuations between the Canadian dollar and the US dollar, Papua New Guinea kina, Macedonian denar and European Euro. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

21. Subsequent events

(a) On October 5, 2017, the Company granted 590,000 stock options to a director and a consultant of the Company. The options are subject to certain vesting provisions and are exercisable over five years at an exercise price of $0.15 per share.

(b) On October 19, 2017, 270,000 stock options expired unexercised. Of these, 50,000 had an exercise price of $0.12 per share and 220,000 had an exercise price of $0.095 per share.

(c) Effective October 1, 2017, the Company entered into a services contract with PRG to manage and operate the pilot metal processing plant (Note 7) and to assist the Company in designing a hydro-metallurgical zinc processing plant. The fees for PRG's services under this arrangement are US$180,000 per month. At the end of five months, the terms of the arrangement are reviewable by both parties and Esrey has the ability to terminate the arrangement.