esrey

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

(in Canadian dollars)

Esrey Resources Ltd.
September 30, 2018

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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., which comprise the consolidated statements of financial position as at September 30, 2018 and September 30, 2017, the consolidated statements of loss and 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.

KPMG

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, 2018 and September 30, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards

Emphasis of Matters

Without modifying our opinion, we draw attention to Note 2(c) in the consolidated financial statements which describes that Esrey Resources Ltd. requires significant amounts of capital in order to develop its zinc operations, achieve commercial production, and produce zinc and other metals economically. 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.

Without modifying our opinion, we draw attention to Note 22 in the consolidated financial statements, which describes that the Company has determined that not all necessary in-country legal agreements in Macedonia were completed in the transaction with PRG Plc. ("PRG") on July 21, 2017; that the Company is in the process of finalizing these agreements which includes formalizing the previously verbal agreement with PRG to complete the construction of the pilot metal recovery plant; and that the Company believes that it retains title to all assets purchased from PRG, including the construction in progress of the pilot metal recovery plant, and all subsequent work performed by PRG to construct the pilot metal recovery plant.

KPMG LLP

Chartered Professional Accountants

May 24, 2019
Vancouver, Canada

Esrey Resources Ltd.
Consolidated statements of financial position
(Expressed in Canadian dollars)

	Note		September 30, 2018		September 30, 2017
ASSETS					
Current assets					
Cash and cash equivalents	16(b)	**$**	**1,210,003**	$	4,222,961
Amounts receivable	5(c)		**302,850**		160,039
Prepaid expenses and deposits	17(a)(ii)		**120,489**		65,156
			1,633,342		4,448,156
Non-current assets					
Stockpile material rights	6(c)		**-**		4,969,701
Pilot plant and equipment	7		**2,364,321**		3,310,084
Deposit	21		**25,973**		-
Investment in joint venture	10		**114,553**		117,228
		$	**4,138,189**	$	12,845,169
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	5(c),17	**$**	**717,312**	$	770,818
Loans payable	11		**227,677**		1,848,747
			944,989		2,619,565
Equity					
Share capital	12		**117,291,708**		115,163,946
Share purchase warrants	12(c)		**1,960,356**		-
Contributed surplus			**13,552,623**		13,325,274
Accumulated other comprehensive income	8(c)		**139,966**		8,036,449
Non-controlling interest	13		**(307,780)**		(293,966)
Deficit			**(129,443,673)**		(126,006,099)
			3,193,200		10,225,604
		$	**4,138,189**	$	12,845,169

Going concern (Note 2(c))
Commitments (Notes 11(b) and 21)
Contingencies (Notes 6 and 22)

Approved and authorized for issue by the Board on May 24, 2019.

(Signed) "Paul Larkin"
Director

(Signed) "Pablo Marcet"
Director

See the accompanying notes to these consolidated financial statements.

Esrey Resources Ltd.

Consolidated statements of loss and comprehensive loss
(Expressed in Canadian dollars, except per share amounts)

	Note		Year ended September 30, 2018		Year ended September 30, 2017 (Restated - see Note below)
Expenses:					
Project development costs	7	**$**	**2,943,845**	$	-
Property investigation costs	9		**540,425**		-
Write-down of stockpile material rights	6(c)		**4,969,701**		-
Write-down of equipment			**453,151**		18,456
Depreciation	7		**690,743**		-
General and administrative expenses			**268,078**		317,819
Salaries and management fees			**1,002,718**		567,733
Legal, audit and accounting fees			**182,008**		162,359
Share-based payments	12(d)		**288,437**		52,850
Travel and business development			**124,369**		103,912
			(11,463,475)		(1,223,129)
Other income (expenses):					
Interest income			**8,742**		6,357
Other income			**37,979**		16,210
Loss from investment in joint venture	10		**(2,675)**		(2,648)
Foreign exchange gain (loss)			**23,457**		(139,695)
			67,503		(119,776)
Loss before income taxes			**(11,395,972)**		(1,342,905)
Income tax expense (recovery)	14		**-**		-
Loss from continuing operations			**(11,395,972)**		(1,342,905)
Income (loss) from discontinued operations	8(c)		**7,945,220**		(2,889,392)
Net loss for the year		**$**	**(3,450,752)**	$	(4,232,297)
Attributable to:					
Non-controlling interest	13		**(13,178)**		(119,795)
Equity shareholders of the Company			**(3,437,574)**		(4,112,502)
Net loss for the year		**$**	**(3,450,752)**	$	(4,232,297)
Net loss attributable to equity shareholders of the Company					
Continuing operations			**(11,382,794)**		(1,223,110)
Discontinued operations			**7,945,220**		(2,889,392)
		$	**(3,437,574)**	$	(4,112,502)
Diluted weighted average number of shares	15		**91,763,187**		47,882,969
Basic and diluted net loss per share attributable to equity shareholders of the Company		**$**	**(0.04)**	$	(0.09)
Basic and diluted net loss per share attributable to equity shareholders of the Company - continuing operations		**$**	**(0.12)**	$	(0.03)

Note: Write-down of exploration and evaluation assets of $2,889,392 during the year ended September 30, 2017 has been reclassified to income (loss) from discontinued operations to conform to the current year's presentation.

See the accompanying notes to the consolidated financial statements.

Continued on next page

Esrey Resources Ltd.

Consolidated statements of loss and comprehensive loss
(Expressed in Canadian dollars, except per share amounts)

Continued from previous page

	Note		**Year ended September 30, 2018**		Year ended September 30, 2017
Net loss for the year		**$**	**(3,450,752)**	$	(4,232,297)
Other comprehensive loss					
Foreign currency translation attributed to non-controlling interest	13		**(636)**		(12,596)
Foreign currency translation for equity shareholders of the Company:					
Related to discontinued operations	8(c)		**(7,945,220)**		-
Related to continuing operations			**48,737**		(171,077)
Total other comprehensive loss for the year			**(7,897,119)**		(183,673)
Total comprehensive loss for the year		**$**	**(11,347,871)**	$	(4,415,970)

See the accompanying notes to the consolidated financial statements.

Esrey Resources Ltd.

Consolidated statements of changes in equity
(Expressed in Canadian dollars, except for share amounts)

	Note	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive (loss) income	Non-controlling interest (Note 13)	Deficit	Total equity
Balance, September 30, 2016		**39,762,771**	**$ 110,392,414**	**$ -**	**$ 13,082,340**	**$ 8,207,526**	**$ (161,575)**	**$ (121,893,597)**	**$ 9,627,108**
Acquisition of Power Zinc	6, 12(b)	39,762,769	4,771,532	-	-	-	-	-	4,771,532
Share-based payments	12(d)	-	-	-	242,934	-	-	-	242,934
Net loss for the period		-	-	-	-	-	(119,795)	(4,112,502)	(4,232,297)
Foreign currency translation - other		-	-	-	-	(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**
Share-based payments	12(d)	-	-	-	288,436	-	-	-	288,436
Options exercised	12(d)	496,666	123,170	-	(61,087)	-	-	-	62,083
Private placement - Tranche 1	12(b),12(c)	12,725,000	1,286,068	1,258,932	-	-	-	-	2,545,000
Private placement - Tranche 2	12(b),12(c)	7,270,000	735,756	718,244	-	-	-	-	1,454,000
Shares issued for finder's fee	12(b),12(c)	158,100	16,000	15,620	-	-	-	-	31,620
Private placement - issue costs	12(b)	-	(33,233)	(32,440)	-	-	-	-	(65,672)
Net loss for the period		-	-	-	-	-	(13,178)	(3,437,574)	(3,450,752)
Foreign currency translation related to discontinued operations	8(c)	-	-	-	-	(7,945,220)	-	-	(7,945,220)
Foreign currency translation related to continuing operations		-	-	-	-	48,737	(636)	-	48,101
Balance, September 30, 2018		**100,175,306**	**$ 117,291,708**	**$ 1,960,356**	**$ 13,552,623**	**$ 139,966**	**$ (307,780)**	**$ (129,443,673)**	**$ 3,193,200**

See the accompanying notes to the consolidated financial statements.

Esrey Resources Ltd.

Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Note	Year ended September 30, 2018	Year ended September 30, 2017
Operating activities			
Loss before income taxes		**$ (11,395,972)**	$ (1,342,905)
Adjustments to net loss for non-cash items			
Depreciation		**690,743**	9,846
Share-based payments	12(d)	**288,437**	52,850
Interest income		**(8,742)**	(6,357)
Loss from investment in joint venture		**2,675**	2,648
Write-down of stockpile material rights	6(c)	**4,969,701**	-
Write-down of equipment		**453,151**	18,456
Foreign exchange (gain) loss		**(23,457)**	139,695
Net changes in non-cash working capital items	16	**84,297**	77,451
		(4,939,167)	(1,048,316)
Adjustments to net loss for cash items			
Interest income received		**6,008**	2,621
Taxes recovered		**-**	(67)
Realized foreign exchange loss (gain)		**24,356**	(59,668)
		(4,908,803)	(1,105,430)
Investing activities:			
Expenditures on pilot plant	7, 17	**(439,979)**	(1,132,890)
Other equipment and vehicle additions	9	**(12,438)**	-
Acquisition-related costs of Power Zinc	6	**-**	(198,169)
		(452,417)	(1,331,059)
Financing activities:			
Proceeds from exercise of stock options	12(d)	**62,083**	-
Proceeds from private placement	12(b)	**3,999,000**	-
Share issue costs	12(b)	**(34,052)**	-
Loan repayment	11(b)	**(1,675,109)**	-
		2,351,922	-
Foreign exchange effect on cash and cash equivalents		**(3,660)**	(269,368)
Net decrease in cash and cash equivalents		**(3,012,958)**	(2,705,857)
Cash and cash equivalents, beginning of the year		**4,222,961**	6,928,818
Cash and cash equivalents, end of the year		**$ 1,210,003**	$ 4,222,961

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 is in the business of recovering zinc, lead and other metal by-products from primary and secondary waste materials. On July 21, 2017, the Company acquired the rights to take delivery of zinc stockpile material located in Kosovo (Note 6) and since then, it has constructed a pilot metal recovery plant in Macedonia which is currently focusing on developing a hydrometallurgical process to efficiently produce zinc and other metals from feed waste material on an economically viable scale. The Company was previously engaged in activities related to its oil and gas properties located primarily in Papua New Guinea.

The address of Esrey's registered office is Suite 1010, 1075 West Georgia Street, Vancouver, British Columbia, V6E 3C9.

2. Basis of presentation and going concern

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) a s issued by the International Accounting Standards Board (“IASB”) were approved and authorized for issuance by the Board of Directors as of May 24, 2019.

(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.

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 sources. During the year ended September 30, 2018, the Company focused the activities of the pilot plant on the recovery of zinc and other metals from feed material called electric arc furnace dust (“EAFD”). To process such feed material commercially, the Company plans to construct a full-scale zinc recovery plant.

2. Basis of presentation and going concern (continued)

(c) Going concern (continued)

During the year ended September 30, 2018, the Company focused mainly on preparing the pilot plant and making the necessary modifications in order to operate it in the manner intended by management. No feed stock has been secured primarily because the Company does not yet have operating permits for a commercial plant or a facility to store and process the EAFD. The Company has commenced a study to evaluate options and potential capital costs and will require significant amounts of capital in order to build the plant, achieve commercial production, and produce zinc and other metals economically.

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, achieve commercial production, and produce zinc and other metals economically. Even if adequate funds are available, there is no guarantee that the Company will achieve commercial production to generate future cash flows. The Company presently does not have sufficient funds to fully develop its zinc operations, achieve commercial production, and produce zinc and other metals economically. 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. Significant accounting policies

The Company's principal 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. See Note 5(a) for further details on the Company's subsidiaries.

(b) Associates and joint ventures

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 one joint venture and accounts for this investment using the equity method 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, 2018, the Company has subsidiaries where the functional currency has been determined to be the United States dollar and the 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 adjustments in other comprehensive income ("OCI") and remain in OCI until a subsidiary is partially or fully disposed of, or until the Company determines that it is abandoning all of the non-financial assets which are held by that subsidiary. 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, 2018, and 2017, 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 include cash and short-term money market investments that are readily convertible to cash with original terms of three months or less.

(f) 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.

The carrying value of the stockpile material rights is reviewed at each reporting period for indications of potential impairment.

3. Summary of significant accounting policies (continued)

(g) Exploration and evaluation assets – Papua New Guinea

Exploration license and leasehold property acquisition expenditures related to the oil and gas licenses in Papua New Guinea 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.

(h) Pilot plant and equipment

Pilot plant and equipment are stated at historical cost less depreciation and amortization and, where necessary, write-downs for impairment. The cost of the pilot plant and laboratory in Macedonia comprises all directly attributable costs necessary to construct and equip the pilot plant. Capitalized costs are reviewed at each reporting date for indications of potential impairment.

Depreciation and amortization are calculated using the following rates and methods based on the estimated useful lives of the assets:

Pilot plant and laboratory	20% straight line
Office furniture, equipment, computers and software	20% straight line
Vehicles	20% straight line

The assembly of the pilot plant and laboratory was substantially completed as at September 30, 2017, and accordingly, the Company started to record depreciation commencing October 1, 2017 when it started to utilize these assets. Depreciation and amortization methods, useful lives and residual values are reviewed annually, with any amendments considered to be a change in estimate accounted for prospectively.

(i) Project development costs

The Company is developing a hydrometallurgical process to produce zinc and other metals from feed waste material. Project development costs on research activities are recognized as an expense as incurred. Project development costs are recognized as an intangible asset when the Company can demonstrate all of the following:

(i) the technical feasibility of completing the hydrometallurgical process to produce zinc and other metals from feed waste material so that it will be available for use or sale.
(ii) the intention to complete the hydrometallurgical process and use or sell it.
(iii) the ability to use or sell the hydrometallurgical process.
(iv) it is probable that the hydrometallurgical process will generate future economic benefits and that among other things, the Company can demonstrate the existence of a market for the output of the hydrometallurgical process or the hydrometallurgical process itself or, if it is to be used internally, the usefulness of the hydrometallurgical process.
(v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the hydrometallurgical process.
(vi) the ability to measure reliably the expenditure attributable to the hydrometallurgical process during its development.

3. Summary of significant accounting policies (continued)

(i) Project development costs *(continued)*

Capitalized project development costs are amortized on a straight-line basis over the period of their expected economic benefit.

As at September 30, 2018, all project development costs were expensed as incurred.

(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 pilot 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.

(ii) Reversal of impairment
For stockpile material rights, exploration and evaluation assets and pilot plant 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.

3. Summary of significant accounting policies (continued)

(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.

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.

3. Summary of significant accounting policies (continued)

(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

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.

3. Summary of significant accounting policies (continued)

(p) Application of new and revised IFRS

Effective October 1, 2017, 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 on or after October 1, 2018 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 3, *Business Combination*
The amendments to IFRS 3 related to providing additional guidance for applying the acquisition method to particular types of business combinations are effective for annual periods on or after January 1, 2019. Further amendments effective for annual periods on or after January 1, 2020 are aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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 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 12(d).

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.

(b) *Project development costs*
As set out in Note 3(i), project development costs are capitalized when the Company can demonstrate that certain criteria are all met. The accounting policy requires management to make certain estimates and assumptions as to future events and circumstances, including judgments about technical feasibility, whether it is likely that future economic benefits will flow to the Company, and the availability of adequate technical, financial and other resources to complete the development, which may be based on assumptions about future events or circumstances. These estimates and assumptions may change as new information becomes available.

(c) *Estimation of useful life of the pilot plant*
The Company determines the estimated useful lives and related depreciation for its pilot plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

4. Critical accounting estimates and judgments (continued)

Critical accounting judgments (continued)

(d) Impairment of assets

Significant judgment is exercised in connection with the assessment of whether exploration and evaluation assets, stockpile material rights, and the pilot metal recovery plant and equipment are impaired, including the determination of and allocation of assets to CGUs for the purposes of impairment testing. The determination of CGUs requires judgment when determining the lowest level for which there are separately identifiable cash inflows generated by the asset category. The application of the Company's accounting policies 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. At each balance sheet date, management reviews whether events or circumstances have occurred to indicate that the carrying amounts of the Company's long-lived assets with finite useful lives may be less than their recoverable amounts. Underlying assumptions used in this assessment are influenced by industry conditions, economic uncertainty and management's intention at the point of assessment. Judgment used in determining whether an asset or asset group is impaired, the recoverable amount of an asset or CGU may affect the amount of the impairment loss to be recorded to an asset or CGU, as well as the potential reversal of the impairment charge in the future.

(e) 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).

(f) 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 10).

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 (Note 8).

4. Critical accounting estimates and judgments (continued)

Critical accounting judgments (continued)

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(Expressed in Canadian dollars)

4. Critical accounting estimates and judgments (continued)

Critical accounting judgments (continued)

(k) 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 (Note 8(b)).

(l) 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.

(m) Going concern
Concluding that the going concern assumption is appropriate based on 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 requires judgement.

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, 2018	2017
LNG Energy (BC) Ltd. ("LNG BC")	Holding Company	BC	**100%**	100%
LNG Exploration Ltd. ("LNG Exploration")	Holding Company	BC	**100%**	100%
LNG Energy (PNG) Limited ("LNG PNG")	Holding Company	PNG	**100%**	100%
LNG Energy No. 2 Limited ("LNG No. 2")	Holding Company	PNG	**100%**	100%
Telemu No. 18 Limited ("Telemu")	Holding Company	PNG	**84.25%(2)**	84.25%
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%**	100%
Esrey Zinc Sales Ltd. ("EZS")	Holding Company	Barbados	**100%**	100%
Power Zinc Limited ("Power Zinc")	Holding Company	Malta	**100%**	100%
Esrey ZM Dooel ("EZM")	Operating Company	Macedonia	**100%(3)**	0%

(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.
(3) In November 2017, the Company acquired EZM from PRG Plc. for total consideration of 5,000 euros. At the time of acquisition, EZM had 5,000 euros in cash and no other assets or liabilities on its balance sheet.

(Expressed in Canadian dollars)

5. Subsidiaries and joint ventures (continued)

(b) Joint venture

Name of joint venture	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held on September 30, 2018	2017
EERL Holdings (BVI) Ltd. ("EERL Holdings")	Holding Company	BVI	**50%**	50%

As at September 30, 2018, 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, 2018, the investment in EERL Holdings is $114,553 (September 30, 2017 – $117,228) (Note 10).

(c) Included in accounts receivable as at September 30, 2018 and 2017 is $143,413 in value-added tax receivable from the government of Macedonia and a US$100,000 (2018 - $129,450; 2017 - $124,800) receivable from EERL Holdings to Telemu (Note 10(i)) which is non-interest bearing and has no fixed date of repayment.

Included in accounts payable as at September 30, 2018 is US$100,000 ($129,450) which is due to a third party who had previously advanced money to purchase the stockpile material rights under the terms of a letter of intent. The letter of intent expired unexercised.

Included in accounts payable and accrued liabilities as at September 30, 2018 and 2017 is US$126,000 (2018 - $163,107; 2017 - $157,248) 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") (Note 22). As a result of the Acquisition, Ray Power, one of the principals and major shareholders of PRG became a director and a 10.2% shareholder of the Company on July 21, 2017 (Note 17). Mr. Power ceased to be a director on August 31, 2018.

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).

(Expressed in Canadian dollars)

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. 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 expenditures on pilot plant in the statement of cash flows for the year ended September 30, 2017.

(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:

Pilot plant 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 11(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 11(b)) were paid to PRG.

(c) The stockpile material rights are contractual rights to the delivery of the MSM to the Company for processing or for other uses, including the sale to third parties. The rights have no term. At the time of delivery of any portion of the MSM to a location specified by the Company, the Company is required to pay N.P.T. Geokos, the owner of the MSM, a fixed price of US$60 per tonne delivered. As at September 30, 2018, the Company had not had any of the MSM delivered to the Company.

The MSM, which originated from stockpile dumps related to historical mining activities in Kosovo, is contained in a storage area located near the village of Milosheve, eight kilometers north of Pristina, Kosovo. Based on stockpile volume calculations and sampling results, the Company estimates that the stockpile contains 100,000 to 120,000 tonnes at a zinc grade ranging between 22% and 24%. The potential tonnages and grades are conceptual in nature. Laboratory testing to date indicates that commercial recovery of zinc using acid leaching is potentially viable.

During the year ended September 30, 2018, the Company focused the activities of its pilot metal recovery plant (Note 7) on the recovery of zinc and other metals from zinc-containing feed materials including EAFD. EAFD is a by-product of scrap and recycle steel smelters. During the year ended September 30, 2018, the Company determined that it no longer plans to process the MSM in the future and accordingly wrote-off the full amount of the stockpile material rights carrying value of $4,969,701.

(Expressed in Canadian dollars)

7. Pilot plant and equipment

	Pilot metal recovery plant	Office equipment and vehicles	Total
Cost			
Balance at acquisition date, July 21, 2017 (Note 6)	$ 1,908,970	$ -	$ 1,908,970
Additions *(note below)*	1,401,114	-	1,401,114
Balance, September 30, 2017	3,310,084	-	3,310,084
Additions	78,162	12,334	90,496
Write-down of equipment	(453,151)	-	(453,151)
Foreign exchange movement	113,068	105	113,173
Balance, September 30, 2018	**$ 3,048,163**	**$ 12,439**	**$ 3,060,602**
Accumulated amortization and depreciation			
Balance at acquisition date, July 21, 2017 and at September 30, 2017	$ -	$ -	$ -
Amortization and depreciation	690,743	-	690,743
Foreign exchange movement	5,538	-	5,538
Balance, September 30, 2018	**$ 696,281**	**$ -**	**$ 696,281**
Carrying amount			
Carrying value at acquisition date, July 21, 2017	$ 1,908,970	$ -	$ 1,908,970
Carrying value at September 30, 2017	$ 3,310,084	$ -	$ 3,310,084
Carrying value at September 30, 2018	**$ 2,351,882**	**$ 12,439**	**$ 2,364,321**

Note: From July 21, 2017 to September 30, 2017, additions included share-based payments of $190,084 in connection with options granted to PRG employees and consultants during the period.

The Company's pilot metal recovery plant, which includes a Company-owned laboratory to test plant samples, is located in Macedonia. The pilot plant and laboratory were substantially assembled by PRG by September 30, 2017.

Effective October 1, 2017, the Company entered into a services contract with PRG ("PRG Services Contract") primarily to carry out the necessary modifications to the pilot plant in order to generate key process design criteria by December 31, 2017, to secure a suitable location for a future plant by December 31, 2017, and then to manage and operate the pilot plant thereafter.

The fees for PRG services under this arrangement were fixed at US$180,000 per month until March 31, 2018 and were reduced to approximately US$60,000 between April 1, 2018 to June 30, 2018. The contract was formally terminated on June 30, 2018. The total fees pursuant to the PRG Services Contract amounted to US$1,273,317 ($1,619,464) and were recorded as project development costs during the year ended September 30, 2018.

Prior to the termination of the PRG Services Contract, the Company hired its own operations personnel and consultants to take over the work that PRG had been doing up until June 30, 2018. The bulk of the work done by the Company included process development, by-product valorization and waste stream minimization.

(Expressed in Canadian dollars)

8. Exploration and evaluation assets – Papua New Guinea

		Papua New Guinea
Cost, at September 30, 2017 and 2018	**$**	**43,743,864**
Accumulated depletion and impairment losses, at September 30, 2017 and 2018		**43,743,864**
Carrying value, at September 30, 2017 and 2018	$	-

(a) Business transactions in Papua New Guinea ("PNG")

On April 22, 2013, the Company closed a farm-in agreement with Heritage Oil Plc ("Heritage") in which Heritage obtained a 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 $7.5 million.

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.

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.

(b) Licenses

The Company holds a 50.55% working interest in PPL 486 (formerly PPL 319) 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 encompasses the same territory as PPL 319 did and has a six-year term along with conditional work and expenditure commitments.

8. Exploration and evaluation assets – Papua New Guinea (continued)

(b) Licenses (continued)

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 were successful. As a result, the Company wrote down the carrying amount of $1.0 million (2.6 million kina) with respect to PPL 486 in the year 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 September 30, 2017, these requirements have not been met and accordingly, the Company wrote down the carrying amount of $1.8 million (4.9 million kina) with respect to PRL 13 during the year ended September 30, 2017. If the Company does not proceed with any activity on PRL 13, the DPE may cancel the license.

(c) Accumulated other comprehensive income ("AOCI")

During the year ended September 30, 2018, the Company determined that while it continued to hold oil and gas concessions in PNG, activities in PNG have substantially ceased and it does not intend to conduct any further activities in PNG. During the year ended September 30, 2018, the Company terminated its former President and Chief Executive Officer, who was an experienced oil and gas executive (Note 17(b)(i)), and commenced the repatriation of its cash holdings from its PNG bank accounts.

As a result, foreign currency translation amounts relating to its PNG assets as at September 30, 2018 were removed from AOCI and were recognized as a $7,945,220 realized foreign exchange gain as income from discontinued operations in net loss for the year ended September 30, 2018.

The write-down of exploration and evaluation assets of $2,889,392 during the year ended September 30, 2017 has been reclassified to income (loss) from discontinued operations to conform to the current year's presentation.

9. Property investigation costs

During the year ended September 30, 2018, the Company incurred costs of $540,425 (September 30, 2018 - $nil) for investigating various industrial sites in Macedonia for a suitable location for the Company's proposed full scale hydro-metallurgical zinc processing plant. The costs included 250,000 euros ($382,135) which the Company paid as a non-refundable deposit for the purchase of a parcel of land in Macedonia. The purchase transaction was not successfully consummated as a result of circumstances within the control of the seller. As a result, the Company believes that it has a claim for the refund of the deposit and is seeking to recover the deposit from the seller (Note 22).

10. Joint venture

EERL Holdings (BVI) Ltd.

As at September 30, 2018, 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, 2018, the investment in EERL Holdings is $114,553 September 30, 2017 – $117,228).

Summarized financial information for EERL Holdings is set out below. This summarized information represents amounts shown in the joint venture's financial statements.

(i) EERL Holdings's net assets

		September 30, 2018		September 30, 2017
Cash and cash equivalents	**$**	**13,319**	$	17,292
Amounts receivable from Telemu		**391,457**		377,395
Investment in Telemu		**-**		-
Accounts payable and accrued liabilities		**(131,780)**		(126,297)
Net assets	**$**	**272,996**	$	268,390

The amounts receivable from Telemu are denominated in US dollars (September 30, 2018 and 2017 – US$302,400), are non-interest bearing and have no fixed date of repayment.

The accounts payable and accrued liabilities include a payable from EERL Holdings to Telemu of $129,450 (September 30, 2017 - $124,800) which is denominated in US dollars (September 30, 2018 and 2017 – 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, 2018		Year ended September 30, 2017
Expenses	**$**	**(5,349)**	$	(5,297)
EERL Holdings' share of Telemu's loss		**-**		(52,027)
Net loss		**(5,349)**		(57,324)
Other comprehensive income (loss)		**9,955**		(13,614)
Total comprehensive loss	**$**	**4,606**	$	(70,938)

10. 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, 2018		September 30, 2017
Opening net assets	**$**	**268,390**	$	339,328
Net loss		**(5,349)**		(57,324)
Other comprehensive income (loss)		**9,955**		(13,614)
Closing net assets	**$**	**272,996**	$	268,390
Percentage interest in joint venture		**50.00%**		50.00%
Interest in joint venture		**136,498**		134,195
Cumulative exchange losses on joint venture net assets		**(21,945)**		(16,967)
Investment in joint venture	**$**	**114,553**	$	117,228

11. Loans payable

(a) Loan

As at September 30, 2018, the Company's subsidiary, Telemu, has a loan payable due to EERL Holdings of $227,677 (September 30, 2017 - $220,107). The loan is denominated in US dollars (September 30, 2018 and 2017 – 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 (Note 6), 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 Esrey, 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. The outstanding balance of the promissory note on September 30, 2017 was US$1,305,000 ($1,628,640 at September 30, 2017). On November 7, 2017, the Company repaid Eiger US$1,305,000 ($1,675,109).

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.

(Expressed in Canadian dollars)

12. Share capital

(a) Authorized

Unlimited number of common shares with no par value.

(b) Issuance of shares

Private Placement
On March 29, 2018, the Company closed the first tranche of a non-brokered private placement pursuant to which it issued 12,725,000 units at a price of $0.20 per unit for gross proceeds of $2,545,000. Each unit consists of one common share and one share purchase warrant. Each warrant gives the holder the right to acquire a further common share of the Company at a price of $0.40 for a term of five years. The securities were subject to a hold period expiring July 30, 2018.

On April 10, 2018, the Company closed the second and final tranche of the non-brokered private placement pursuant to which it issued 7,270,000 units at a price of $0.20 per unit for gross proceeds of $1,454,000. The Company also issued a finder’s fee of 158,100 units to third party finders in connection with the closing of the second tranche. The securities issued were subject to a hold period expiring August 11, 2018.

Combined with the first tranche (but not including the finders’ fee units), the Company issued an aggregate of 19,995,000 units for total gross proceeds of $3,999,000. On completion of the private placement, the Company had 101,175,306 shares issued and outstanding.

Share issue costs in connection with the private placement amounted to $65,672, of which $34,052 is comprised mainly of legal and regulatory fees, and the remaining $31,620 represents the fair value of the finder’s fee of 158,100 units as described above.

Acquisition of Power Zinc
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. On completion of the acquisition, the Company had 79,525,540 shares issued and outstanding.

(c) Share purchase warrants

The following warrants are outstanding as at September 30, 2018 and 2017:

	Number of warrants	Exercise Price	Expiry Date
Balance, September 30, 2017	-	-	-
Private Placement - March 29, 2018	12,725,000	$0.40	March 29, 2023
Private Placement - April 10, 2018	7,270,000	$0.40	April 10, 2023
Warrants issued as finders' fee	158,100	$0.40	April 10, 2023
Balance, September 30, 2018	**20,153,100**	**$0.40**	

(Expressed in Canadian dollars)

12. Share capital (continued)

(c) Share purchase warrants (continued)

In connection with the March 29, 2018 and April 10, 2018 private placements of units (Note 12(b)), 12,725,000 and 7,428,100 warrants were issued respectively. Each warrant gives the holder the right to acquire a further common share of the Company at a price of $0.40 for a term of five years. The expiry of the Warrants may however be accelerated at the election of the Company in circumstances where, at any time following 4 months from the issuance of the Warrants, the closing price of the Company's shares on the TSX Venture Exchange is equal to or greater than $0.75 for 20 consecutive trading days. In such case, the Company may give notice to the holders of the Warrants that the Warrants will expire 30 days following such notice.

The fair value of the warrants issued is estimated at the time of the issue using the Black-Scholes pricing model with the following assumptions:

	April 10, 2018	**March 29, 2018**
Exercise price per warrant	$0.40	$0.40
Share price at date of issue	$0.21	$0.25
Expected life	5 years	5 years
Risk-free interest rate	2.03%	1.96%
Dividend yield	Nil	Nil
Expected volatility	211.54%	212.41%
Estimated fair value per warrant	$0.10	$0.10

Consideration received for the private placement units has been allocated between common shares and share purchase warrants on the relative fair value method.

(d) Share options

The changes in share options during the years ended September 30, 2018 and 2017 were as follows:

	September 30, 2018		September 30, 2017	
	Number of Options	**Average Exercise Price**	Number of Options	Average Exercise Price
Balance, beginning of the period	7,099,500	$0.11	2,983,000	$0.10
Granted	640,000	$0.16	4,183,000	$0.13
Exercised	(496,666)	$0.13	-	-
Forfeited	(2,199,334)	$0.12	(66,500)	$0.10
Balance, end of the period	**5,043,500**	**$0.12**	**7,099,500**	**$0.11**

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 vested on February 9, 2018, and one-third vested 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 pilot plant construction in progress (Note 7).

On October 5, 2017, the Company granted 590,000 stock options to a director and a consultant of the Company exercisable at $0.15 per share and expiring on October 5, 2022. One-third of these options vested immediately, one-third vested on April 5, 2018, and one-third vested on October 5, 2018.

(Expressed in Canadian dollars)

12. Share capital (continued)

(d) Share options (continued)

On March 1, 2018, the Company granted 50,000 stock options to an employee of the Company exercisable at $0.24 per share and expiring on March 1, 2023. One-third of these options vested immediately, one-third vested on September 1, 2018, and one-third vested on March 1, 2019.

For the year ended September 30, 2018, non-cash share-based payments expense associated with stock options was $288,437.

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:

	March 1, 2018	October 5, 2017	August 9, 2017
Exercise price per option	$0.24	$0.15	$0.13
Share price at date of grant	$0.24	$0.15	$0.01
Expected life	5 years	5 years	5 years
Risk-free interest rate	1.99%	1.75%	1.52%
Dividend yield	Nil	Nil	Nil
Expected volatility	212.92%	211.94%	214.11%
Total fair value of options	$11,803	$86,991	$514,482
Estimated fair value per option	$0.24	$0.15	$0.12

During the year ended September 30, 2018, 496,666 options were exercised at a price of $0.125 and 220,000, 550,000 and 1,429,334 stock options were forfeited at an exercise price of $0.12, $0.095 and $0.125 respectively.

The following table summarizes information about outstanding and exercisable options at September 30, 2018.

Options outstanding	Options exercisable	Exercise Price	Expiry Date
639,500	639,500	$0.12	January 8, 2019
1,507,000	1,507,000	$0.095	April 2, 2020
2,257,000	2,257,000	$0.125	August 9, 2022
590,000	393,333	$0.15	October 5, 2022
50,000	33,333	$0.24	March 1, 2023
5,043,500	**4,830,166**		

The weighted average exercise price of options exercisable at September 30, 2018 is $0.12 per share (September 30, 2017 - $0.11 per share). The weighted average remaining life of exercisable options is 2.66 years (September 30, 2017 – 3.02 years).

(Expressed in Canadian dollars)

12. Share capital (continued)

(e) Share appreciation rights plan

On June 21, 2018, the Company's shareholders approved a share appreciation rights plan ("SARs Plan") which authorizes the directors of the Company to grant share appreciation rights ("SARs") to directors, officers, employees and consultants of the Company, excluding consultants performing investor relations activities.

Pursuant to a SAR agreement (the "SAR Agreement") a SAR gives the holder the right to receive from the Company a cash payout equal to the difference between the fair market value of the Company's common shares at the time of exercise (determined as the closing price of such shares on the trading day prior to exercise) and the dollar amount set out in the SAR Agreement, which amount shall be not less than the Discounted Market Price (as defined under the policies of the TSX Venture Exchange).of the Company's shares at the time the SAR Agreement is entered into.

<u>The material terms of the SAR Plan include:</u>

(i) the maximum term of a SAR is ten years from the date of the applicable SAR Agreement;

(ii) the maximum number of SARs that may be issued under the Plan at any time is 1,000,000 subject to increase with disinterested shareholder approval; and

(iii) the maximum number of SARs that can be granted to any one person in a 12 month period is a number equal to 1% of the then outstanding shares of the Company.

As at September 30, 2018 and March 18, 2019, no SARs have been granted by the Company.

13. Non-controlling interest

Through its direct ownership interest and its interest in the EERL Holdings joint venture, the Company has an 84.25% interest in Telemu, an oil and gas company incorporated in PNG. 15.75% of Telemu's equity (deficiency) 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, 2016	**$**	**(161,575)**
Non-controlling interests' share of Telemu's loss		(119,795)
Foreign exchange translation		(12,596)
Balance, September 30, 2017	**$**	**(293,966)**
Non-controlling interests' share of Telemu's loss		(13,178)
Foreign exchange translation		(636)
Balance, September 30, 2018	**$**	**(307,780)**

(Expressed in Canadian dollars)

14. Income tax

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, 2018		September 30, 2017
Loss for the year before taxes	**$**	**(11,395,972)**	$	(1,342,905)
Statutory rates		**27.0%**		26.0%
Expected tax recovery		**(3,076,912)**		(349,155)
Difference in tax rates between foreign jurisdictions and Canada		**1,217,577**		1,220
Items not deductible for income tax purposes		**169,041**		20,895
Change in unrecognized tax benefit		**1,625,598**		386,773
Other		**64,696**		(59,733)
Income tax expense (recovery)	**$**	**-**	$	-

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

		September 30, 2018		September 30, 2017
Non-capital loss carry forwards	**$**	**126,034,537**	$	119,997,786
Capital loss carry forwards		**1,532,409**		1,532,409
Property, plant and equipment		**145,593**		145,593
Exploration and evaluation assets		**9,443,744**		9,443,744
Other		**2,682,469**		2,706,825
	$	**139,838,752**	$	133,826,357

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, Macedonia and Papua New Guinea. The Company has total non-operating losses of approximately $126.0 million available to apply against future income for tax purposes. These losses expire between 2019 and 2038.

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.

(Expressed in Canadian dollars)

15. Loss per share from continuing operations

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

	Year ended September 30, 2018	Year ended September 30, 2017
Weighted average number of ordinary shares	**89,728,855**	47,606,386
Effect of dilutive securities:		
Stock options	**2,034,332**	276,583
Diluted weighted average number of ordinary shares	**91,763,187**	47,882,969

As at September 30, 2018, the Company had 22,948,934 (September 30, 2017 – 4,034,251) 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 from continuing operations.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options and share purchase warrants were based on quoted market prices for the periods during which the options and share purchase warrants 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, 2018	Year ended September 30, 2017
Amounts receivable	**$ (142,811)**	$ (4,350)
Prepaid expenses and deposits	**(81,306)**	25,316
Accounts payable and accrued liabilities	**308,414**	56,485
Net changes in non-cash working capital items	**$ 84,297**	$ 77,451

As at September 30, 2018, $nil of accounts payable related to amounts incurred on capital expenditure (September 30, 2017 - $361,920).

(b) At September 30, 2018, the Company had cash of $612,003 (September 30, 2017 – $1,009,327) and cash equivalents of $598,000 (September 30, 2017 – $3,213,634).

(c) Other non-cash transactions that occurred during the years ended September 30, 2018 and 2017 are disclosed in Note 12.

(Expressed in Canadian dollars)

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 venture are disclosed in Notes 5 and 11. Details of the transactions between the Company and other related parties are disclosed below.

(a) Transactions

During the years ended September 30, 2018 and 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 and (c) an entity partly owned and having a cost-sharing agreement with the Company (see (a)(ii)), as follows:

	Nature of transactions involved	**Relationship to the Company**
Maluti Services Limited ("Maluti")	Management, general and administrative, and business development	CEO
TRG Resources Ltd.	Management	Former CEO
Jazz Financial Ltd. ("Jazz")	Management	CFO
Pangea Management Corp.	Consulting	Family member of CEO
Sterling West Management Ltd.	Management and general and administrative	See (ii) below
PRG Plc.	Construction and assembly of pilot metal recovery plant and project development costs	Director until August 31, 2018 (see (i) below) and significant shareholder

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, 2018**	Year ended September 30, 2017
Management fees	(ii)	**638,528**	276,058
General and administrative expenses	(ii)	**161,664**	179,033
Travel and business development		**108,241**	80,315
Consulting fees		**24,000**	24,000
Project development costs (Notes 6 and 7)	(i)	**1,906,424**	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 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 11(b)) and advance cash payments from the Company of US$500,000 ($627,450) (Note 6(a)).

17. Related party transactions (continued)

(a) Transactions (continued)

The fee amounts for PRG's construction services at the time PRG became a related party from date of Acquisition to September 30, 2017 were $1,211,030, which was comprised: (a) cash payments of US$405,000 ($492,985) made by the Company to PRG, (b) US$283,788 ($356,125) of cash of Power Zinc held (Note 6(b)) on its behalf by its parent PRG at Acquisition and (c) non-interest bearing accounts payable due to PRG of US$290,000 ($361,920) at September 30, 2017, which amounts were paid in November 2017.

The total fees pursuant to the PRG Services Contract amounted to US$1,273,317 ($1,619,463) during the year ended September 30, 2018 (Note 7). In addition, the Company paid PRG $286,960 for external security services at the pilot plant, rent for using PRG's leased premises for the pilot plant and the laboratory, and the reimbursement of miscellaneous laboratory and pilot plant equipment and supplies which the Company requested PRG to purchase on its behalf. As at September 30, 2018, the amount owing to PRG was $99,722.

The Company is party to a shareholders' cost-sharing agreement with certain other public and private companies (the "Other Companies") pursuant to which the Company and the Other Companies are equal shareholders in Sterling West Management Ltd. ("Sterling") and, through Sterling, share office space, furnishings, equipment and communications facilities (on a cost recovery basis) and the employment of various administrative, office and management personnel in Vancouver, British Columbia, Canada. Costs of the shared office facilities and the shared employees are recovered from the Company in proportion to the time spent by the shared employees on matters pertaining to the Company. During the year ended September 30, 2018, the Company's share of management and overhead costs was $288,280 (year ended September 30, 2017 – $259,828).

As at September 30, 2018, the amount owing to Sterling was $30,100 (September 30, 2017 – $31,732). As at September 30, 2018, the Company also has a $57,000 deposit with Sterling (September 30, 2017 – $57,000) which is included in prepaid expenses and deposits.

Effective October 1, 2018, the Company entered into a five-year lease commitment for its head office premises in Vancouver, British Columbia, Canada. As Sterling and the Other Companies share the premises with the Company, it is anticipated that a portion of the cost of the lease will be allocated to Sterling and the Other Companies as long as they continue to share the premises.

(Expressed in Canadian dollars)

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, 2018 and 2017 were as follows:

	Note		**Year ended September 30, 2018**		Year ended September 30, 2017
Remuneration	(i)		**692,527**	$	157,603
Directors' fees			**16,072**		37,174
Share-based payments	(ii)		**157,506**		81,017
		$	**866,105**	$	275,794

(i) Remuneration includes management fees disclosed in Note 17(a) which includes remuneration paid to a former CEO through his private company. Remuneration also includes (a) termination fees of $150,786 (US$120,000) paid to two former CEOs of the Company and (b) remuneration paid to one of those former CEOs personally and not through a private company.

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

The services of the Company's CEO and CFO are provided pursuant to management services contracts with Maluti and Jazz, respectively. Under the terms of these contracts, in the event of termination without cause, as defined by these contracts, Maluti and Jazz are entitled to termination payments of US$240,000 ($310,680) and US$180,000 ($233,010), respectively.

Except as disclosed under Note 17(b)(i) above, key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the year ended September 30, 2018 and 2017. Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at September 30, 2018 included directors' fees of $Nil (September 30, 2017 - $2,739).

18. Segmented information

Geographic Information

The Company's assets by geographic areas as at September 30, 2018 and 2017 are as follows:

	September 30, 2018							
		Papua New Guinea		**Macedonia**		**Canada**		**Total**
Cash and cash equivalents	$	481,778	$	44,638	$	683,587	**$**	**1,210,003**
Other current assets		13,496		195,686		214,157		**423,339**
Pilot plant and equipment		-		2,364,321		-		**2,364,321**
Long-term deposit		-		-		25,973		**25,973**
Investment in joint venture		-		-		114,553		**114,553**
	$	**495,274**	**$**	**2,604,645**	**$**	**1,038,270**	**$**	**4,138,189**

(Expressed in Canadian dollars)

18. Segmented information (continued)

September 30, 2017	Papua New Guinea	Macedonia	Barbados	Canada	Total
Cash and cash equivalents	$ 571,834	$ -	$ -	$ 3,651,127	$ 4,222,961
Other current assets	13,528	-	-	211,667	225,195
Pilot plant and equipment	-	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	$ 3,310,084	$ 4,969,701	$ 3,980,022	$ 12,845,169

The Company's expenses and income (loss) by geographic area for the years ended September 30, 2018 and 2017 are as follows:

Years ended September 30, 2018	**Papua New Guinea**	**United States**	**Macedonia**	**Barbados**	**Canada**	**Total**
Income (loss) from continuing operations	$ (47,977)	$ 38,981	$ (2,583,590)	$ (7,229,739)	$ (1,573,647)	$ (11,395,972)
Income from discontinued operations	7,945,220	-	-	-	-	7,945,220
Net income (loss)	**$ 7,897,243**	**$ 38,981**	**$ (2,583,590)**	**$ (7,229,739)**	**$ (1,573,647)**	**$ (3,450,752)**
Attributable to						
Non-controlling interest	$ (13,178)	$ -	$ -	$ -	$ -	$ (13,178)
Equity shareholders of the Company	7,910,421	38,981	(2,583,590)	(7,229,739)	(1,573,647)	(3,437,574)
	$ 7,897,243	**$ 38,981**	**$ (2,583,590)**	**$ (7,229,739)**	**$ (1,573,647)**	**$ (3,450,752)**

Year ended September 30, 2017	Papua New Guinea	Poland	United States	Canada	Total
Income (loss) from continuing operations	$ 148,667	$ 20,229	$ (134,171)	$ (1,377,630)	$ (1,342,905)
Loss from discontinued operations	(2,889,392)	-	-	-	$ (2,889,392)
Net income (loss)	$ (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)

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 zinc project 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, 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. 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 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.

(Expressed in Canadian dollars)

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(d)), GST receivables from the government of Canada and value-added tax receivables from the government of Macedonia. 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, 2018 and 2017.

September 30, 2018

	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	**$ 717,312**	**$ -**	**$ 717,312**
Loans payable (Note 11)	**227,677**	**-**	**227,677**
Lease commitments (Notes 17 and 21)	**123,583**	**609,028**	**732,611**
Total	**$ 1,068,572**	**$609,028**	**$ 1,677,600**

September 30, 2017

	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	$ 770,818	$ -	$ 770,818
Loans payable (Note 11)	1,848,747	-	1,848,747
Total	$ 2,619,565	$ -	$ 2,619,565

The Company is party to an agreement with Eiger Holding AG which gives 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 zinc and other metals produced from a full-scale metal processing plant that the Company intends to construct (Note 11(b)).

(Expressed in Canadian dollars)

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 cash, expenditures, 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. Commitments

On August 20, 2018, the Company entered into a five-year lease agreement for its head office premises in Vancouver, Canada, effective October 1, 2018. The annual minimum payments under this lease are as follows (Note 17(a)(ii)):

Year ending September 30,	$
2019	**123,583**
2020	**129,726**
2021	**156,906**
2022	**161,198**
2023	**161,198**
	732,611

In connection with this lease, the Company has a $25,973 deposit with the landlord. This amount has been recorded as "deposit" on the Company's consolidated statement of financial position as at September 30, 2018.

The Company also has sublease agreements for its pilot plant premises and its laboratory premises with PRG. Both sublease agreements are effective until June 30, 2020, but they can be terminated by either the Company or PRG with 30 days' written notice. The monthly amounts under the sublease agreements are 2,221 euros ($3,748) for the pilot plant and 30,467 Macedonian denars ($742) for the laboratory. These amounts have not been included in the table above because of the month-to-month nature of the expense and commitment.

22. Contingencies

Due to the nature of the Company's operations, various legal, tax, environmental and regulatory matters are outstanding from time to time. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

The Company is pursuing the recovery of a deposit paid in connection with the Company's investigation of a potential site for a future full-scale zinc processing plant (Note 9) through the legal system in Macedonia. The outcome of this matter is currently uncertain.

The Company has determined that not all necessary in-country legal agreements in Macedonia were completed in the transaction with PRG (Note 6) (the "Agreements") and the Company is currently in the process of finalizing these Agreements with PRG. These Agreements will also formalize the previously verbal agreement with PRG (Note 6) for PRG to complete the construction of the pilot metal recovery plant for the Company at a total construction cost consideration of US$2,500,000 ($3,120,000).

The Company believes that it retains title to all assets purchased from PRG on July 21, 2017 (including the pilot metal recovery plant construction in progress) and that it retains title to all subsequent work performed by PRG to construct the pilot metal recovery plant for the Company in 2017. As a result of preparing the Agreements, the Company identified that it is more likely than not that it owes value-added taxes payable of approximately $45,000 to PRG, which the Company has recorded in accrued liabilities as at September 30, 2018. As the Company is entitled to reclaim VAT amounts paid, it has also recorded an equivalent amount in accounts receivable from the government of Macedonia as at September 30, 2018.

While the outcomes of these matters are uncertain, based upon the information currently available, the Company does not believe that these matters in aggregate will have a material adverse effect on its financial statements. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in its financial statements in the period in which such changes occur.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended September 30, 2018

The following Management's Discussion and Analysis ("MD&A") is intended to assist the reader to assess material changes in financial condition and results of operations of Esrey Resources Ltd. ("Esrey" or the "Company") as at and for the years ended September 30, 2018 and 2017.

This MD&A should be read in conjunction with the audited consolidated financial statements and the notes thereto as at and for the year ended September 30, 2018. These audited consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

All dollar amounts are expressed in Canadian dollars unless otherwise indicated. Note that additional information relating to the Company is available on SEDAR at www.sedar.com.

The effective date of this MD&A is May 24, 2019.

Contents of the MD&A

1. Financial highlights for the year ended September 30, 2018

- During the year ended September 30, 2018 ("2018"), Esrey recorded a net loss attributable to equity shareholders of the Company of $3,437,574 ($0.04 per share), compared to a net loss attributable to equity shareholders of the Company of $4,112,502 ($0.09 per share) during the year ended September 30, 2017 ("2017").

- The Company recorded $2,943,845 in project development costs at its pilot metal recovery plant in 2018.

- The Company incurred costs of $540,425 in 2018 for investigating various industrial sites in Macedonia for a suitable location for its proposed full scale hydro-metallurgical processing plant.

- The Company recorded a write-down of the stockpile material rights of $4,969,701 in 2018.

- On March 29, 2018 and April 10, 2018, the Company closed the first and second tranches, respectively, of a non-brokered private placement pursuant to which it issued an aggregate of 7,270,000 units at a price of $0.20 per unit for gross proceeds of $3,999,000. The Company also issued a finder's fee of 158,100 units to third party finders in connection with the second tranche.

- In 2018, the Company recorded income from discontinued operations of $7,945,220 which represents the elimination of all balances in its accumulated other comprehensive income accounts relating to its Papua New Guinea oil and gas assets.

- In November 2017, the Company repaid an outstanding loan of US$1,305,000 ($1,675,109) to Eiger Holding AG.

- At September 30, 2018, the Company had cash and cash equivalents of $1,210,003 compared to $4,222,961 at September 30, 2017.

2. Overview and operational update

The Company is in the business of recovering zinc, lead and other metal by-products from primary and secondary waste materials. On July 21, 2017, the Company acquired the rights to take delivery of zinc stockpile material located in Kosovo and since then, it has constructed a pilot metal recovery plant in Macedonia which is currently focusing on developing a hydrometallurgical process to efficiently produce zinc and other metals from feed waste material on an economically viable scale.

The Company was previously engaged in activities related to its oil and gas concessions located primarily in Papua New Guinea ("PNG"). On October 16, 2017, the Company changed its name from Esrey Energy Ltd. to Esrey Resources Ltd. The Company's shares trade on the TSX Venture Exchange under the symbol "ESR."

On October 5, 2017, the Company's then President and Chief Executive Officer resigned and was replaced by Kirk Adams. Mr. Adams resigned on February 28, 2018 and was replaced by David Cohen.

2.1 Milosheve Stockpile Material (Kosovo)

On July 21, 2017, the Company completed the acquisition (the "Acquisition") of 100% of the shares of Power Zinc Limited ("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. As a result of the Acquisition, Ray Power, one of the principals and major shareholders of PRG became a director and a 10.2% shareholder of the Company on July 21, 2017. Mr. Power ceased to be a director on August 31, 2018.

The principal assets of Power Zinc included the contractual rights to the zinc Milosheve Stockpile Material (the "MSM"), located in Kosovo and the construction in progress of a pilot metal recovery plant located in Macedonia, as described in Section 2.2 below.

The stockpile material rights are contractual rights to the delivery of the 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 MSM to a location specified by the Company, the Company is required to pay N.P.T. Geokos, the owner of the MSM, a fixed price of US$60 per tonne delivered. As at September 30, 2018, the Company had not had any of the MSM delivered to the Company.

The MSM, which originated from stockpile dumps related to historical mining activities in Kosovo, is contained in a storage area located near the village of Milosheve near Pristina, Kosovo. Based on stockpile volume calculations and sampling results, the Company estimates the stockpile contains 100,000 to 120,000 tonnes at a zinc grade of 22% to 24%. The potential tonnages and grades are conceptual in nature. Laboratory testing to date indicate that commercial recovery of zinc using acid leaching is potentially viable.

During the year ended September 30, 2018, the Company focused the activities of its pilot metal recovery plant on the recovery of zinc and other metals from zinc-containing feed materials including EAFD. EAFD is widely available globally as an ongoing by-product of the large scrap and recycle steel smelters. As a classified hazardous waste, its approved disposal is limited to recycle and recovery operations and subject to strict environmental control. The Company is focusing on utilizing EAFD material and has determined that it no longer plans to process the MSM in the future. As a result, the Company performed an assessment of the MSM's recoverable amount and identified the following:

(i) The Company is uncertain at this time whether the MSM stockpile material could be blended with EAFD to produce zinc and other metals in the short to medium term;
(ii) During 2018, shipping MSM and other hazardous waste materials into and out of Kosovo have become increasingly challenging from a regulatory and environmental perspective;

(iii) The Company believes that there is currently no market for the MSM.

Accordingly, the Company wrote-off the full amount of the MSM carrying value of $4,969,701 during the year ended September 30, 2018.

2.2 Pilot metal recovery plant (Macedonia)

The Company's pilot metal recovery plant, which includes a Company-owned laboratory to test plant samples, is located in Macedonia, and was assembled by PRG at a cost of US$2,500,000 ($3,120,000).

Effective October 1, 2017, the Company entered into a services contract with PRG ("PRG Services Contract") primarily to. carry out the necessary modifications to the pilot plant in order to generate key process design criteria by December 31, 2017, to secure a suitable location for a future plant by December 31, 2017, and then to manage and operate the pilot plant thereafter. The fees for PRG services under this arrangement were fixed at US$180,000 per month until March 31, 2018 and were reduced to approximately US$60,000 from April 1, 2018 to June 30, 2018. The contract was formally terminated on June 30, 2018.

Prior to the termination of the PRG Services Contract, the Company hired its own operations personnel and consultants to take over the work that PRG had been doing up until June 30, 2018. The bulk of the work done by the Company included process development, by-product valorization and waste stream minimization.

During the year ended September 30, 2018, the cost of work done at the pilot plant was recorded as project development costs, which amounted to $2,943,845 of which $1,619,464 (US$1,273,317) were fees pursuant to the PRG Services Contract.

At September 30, 2018, the Company recorded a write-down of equipment of $453,151 based in its assessment of the carrying values of its equipment for indication of impairment.

The hydro-metallurgical process is currently in the final stages of development. International laboratories have been assisting the Company by fine tuning certain aspects of the Company's recovery technology. It is expected that successful piloting will, subject to the Company's ability to raise financing, lead to the construction of a full-scale commercial facility to process EAFD and other zinc and lead bearing wastes. The full-scale plant will be capable of producing London Metal Exchange ("LME") grade zinc, lead and other recovered metals and contribute to the cleanup of metallurgical wastes around the Balkans and other regions.

2.3 Future location for commercial plant

During the year ended September 30, 2018, the Company incurred costs of $540,425 (September 30, 2018 - $nil) for investigating various industrial sites in Macedonia for a suitable location for the Company's proposed full scale hydro-metallurgical zinc processing plant. The costs included 250,000 euros ($382,135) which the Company paid as a non-refundable deposit for the purchase of a parcel of land in Macedonia. The purchase transaction was not successfully consummated as a result of circumstances within the control of the seller. As a result, the Company believes that it has a claim for the refund of the deposit and is currently pursuing the recovery of the deposit from the seller through the legal system in Macedonia. The outcome of this matter is currently undeterminable.

3. Results of operations

The review of the results of operations should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended September 30, 2018.

The table below sets forth selected results of operations for the Company for the three months and years ended September 30, 2018 and 2017:

	Three months ended September 30,		Year ended September 30,	
	2018	2017	**2018**	2017
	(unaudited)	(unaudited)		
Expenses				
Project development costs	**$ 369,310**	$ -	**$ 2,943,845**	$ -
Property investigation costs	**435,338**	-	**540,425**	-
Write-down of stockpile material rights	**4,969,701**	-	**4,969,701**	-
Write-down of equipment	**453,151**	18,456	**453,151**	18,456
Depreciation	**173,701**	-	**690,743**	-
General and administrative expenses	**61,611**	119,793	**268,078**	317,819
Salaries and management fees	**206,427**	209,824	**1,002,718**	567,733
Legal, audit and accounting fees	**21,662**	34,363	**182,008**	162,359
Share-based payments	**(31,710)**	52,850	**288,437**	52,850
Travel and business development	**24,958**	84,723	**124,369**	103,912
	(6,684,149)	(520,009)	**(11,463,475)**	(1,223,129)
Other income (expense)				
Interest income	**3,265**	2,067	**8,742**	6,357
Other income	**25,876**	3,761	**37,979**	16,210
Loss from investment in joint ventures	**(2,282)**	30	**(2,675)**	(2,648)
Foreign exchange gain (loss)	**(12,088)**	(252,769)	**23,457**	(139,695)
Loss for the period before tax	**(6,669,378)**	(766,920)	**(11,395,972)**	(1,342,905)
Income tax expense (recovery)	**-**	-	**-**	-
Loss from continuing operations	**(6,669,378)**	(766,920)	**(11,395,972)**	(1,342,905)
Income (loss) from discontinued operations (Note 1)	**7,945,220**	(2,889,392)	**7,945,220**	(2,889,392)
Net income (loss)	**$ 1,275,842**	$ (3,656,312)	**$ (3,450,752)**	$ (4,232,297)
Attributable to:				
Non-controlling interest	**(11,579)**	(115,209)	**(13,178)**	(119,795)
Equity shareholders of the Company	**1,287,421**	(3,541,103)	**(3,437,574)**	(4,112,502)
	$ 1,275,842	$ (3,656,312)	**$ (3,450,752)**	$ (4,232,297)
Net loss attributable to equity shareholders of the Company:				
Continuing operations	**(6,657,799)**	(651,711)	**(11,382,794)**	(1,223,110)
Discontinued operations	**7,945,220**	(2,889,392)	**7,945,220**	(2,889,392)
	$ 1,287,421	$ (3,541,103)	**$ (3,437,574)**	$ (4,112,502)
Basic and diluted income (loss) per share attributable to equity shareholders of the company	**$ 0.01**	$ (0.05)	**$ (0.04)**	$ (0.09)
Basic and diluted income (loss) per share attributable to equity shareholders of the company - continuing operations	**$ (0.07)**	$ (0.01)	**$ (0.12)**	$ (0.03)
Consolidated statements of financial position	**September 30, 2018**	September 30, 2017		
Total assets	**$ 4,138,189**	$ 12,845,169		
Total liabilities	**$ 944,989**	$ 2,619,565		

Note 1: Write-down of exploration and evaluation assets of $2,889,392 during the three and twelve months ended September 30, 2017 has been reclassified to income (loss) from discontinued operations to conform to the current period's presentation.

3.1 Results of operations for the years ended September 30, 2018 and 2017

During the year ended September 30, 2018 ("2018"), the Company reported net loss attributable to equity shareholders of the Company of $3,437,574 compared to a net loss of $4,112,502 for the year ended September 30, 2017 ("2017"). The Company's net loss decreased by $674,928 between 2018 and 2017 primarily due to the following:

- Depreciation on the pilot plant and equipment of $690,743 in 2018 as the assembly of the pilot plant was substantially completed on September 30, 2017;
- An increase in salaries and management fees by $434,985 over 2017 as a result of:
    - Management fees paid to two officers of the Company (President & CEO and Chief Financial Officer), as compared to 2017 when the Company had only one officer (President & CEO);
    - termination fees paid to David Nelson, the Company's President & CEO who resigned on October 5, 2017 and to Kirk Adams, the Company's President & CEO who was appointed on October 5, 2017 and who resigned on February 28, 2018;
    - an increase in salaries associated with accounting, financial and corporate activity in Macedonia as the Company opened an office in Skopje, Macedonia on April 1, 2018;
- Share-based payments of $288,437 compared to $52,850 in 2017 due to the recognition of options granted in 2018 and to options that were granted in the three months ended September 30, 2017. No options were granted in in the first nine months of 2017;
- Property investigation costs of $540,425 in 2018 as discussed in Section 2.3 above;
- Project development costs of $2,943,845 in 2018 as discussed in Section 2.2 above;
- Write-down of equipment of $453,151 as discussed in Section 2.2 above;
- Write-down of stockpile material rights of $4,969,701 in 2018 as discussed in Section 2.1 above; and
- Income from discontinued operations of $7,945,220 in 2018 which represents the elimination of all balances in its accumulated other comprehensive income ("AOCI") accounts relating to its PNG assets as at September 30, 2018, compared to a loss from discontinued operations of $2,889,392 in 2017. The 2017 amount was a write-down of the Company's oil and gas exploration and evaluation assets and was reclassed to loss from discontinued operations to conform to the current year's presentation. During the past few years, the Company has sought alternatives such as farm-out arrangements or the sale of properties in order to generate cash from these properties, but to date, these efforts have been unsuccessful. During the year ended September 30, 2018, the Company determined that, although it continued to hold its oil and gas concessions, activities in PNG have substantially ceased and it does not intend to conduct any further activities in PNG.

3.2 Results of operations for the three months ended September 30, 2018 and 2017

For the three months ended September 30, 2018 ("Q4-2018"), the Company reported net income attributable to equity shareholders of the Company of $1,287,421 compared to a net loss of $3,541,103 for the three months ended September 30, 2017 ("Q4-2017"). The change in the Company's financial results between Q4-2018 and Q4-2017 is primarily due to the following:

- Write-down of stockpile material rights of $4,969,701 in 2018 as discussed in Section 2.1 above;
- Property investigation costs of $435,338 in Q4-2018, as discussed in Section 2.3 above;
- Write-down of equipment of $453,151 as discussed in Section 2.2 above;
- Project development costs of $369,310 in Q4-2018, as discussed in Section 2.2 above;
- Depreciation on the pilot plant and equipment of $173,701 in Q4-2018;
- Share-based payments of ($31,710) in Q4-2018 compared to $52,850 in Q4-2017. In Q4-2018, the negative amount relates to options that were forfeited in Q4-2018; and

- Income from discontinued operations of $7,945,220 in Q4-2018 which as described above represents the elimination of all balances in its AOCI accounts relating to its PNG assets as at September 30, 2018, compared to a loss from discontinued operations of $2,889,392 in Q4-2017.

4. Selected annual and quarterly information

Selected annual information

The table below summarizes the Company's three most recently completed years:

	Years ended September 30, 2018	2017 *(Note 1)*	2016
Project development costs	$ (2,943,845)	$ -	$ -
Property investigation costs	(540,425)	-	-
Write-down of stockpile material rights	(4,969,701)	-	-
Write-down of equipment	(453,151)	(18,456)	
Other expenses	(2,556,353)	(1,204,673)	(1,225,258)
Loss from continuing operations	(11,395,972)	(1,342,905)	(1,427,067)
Income (loss) from discontinued operations	7,945,220	(2,889,392)	-
Net loss	(3,450,752)	(4,232,297)	(1,427,067)
Basic and diluted loss per share attributable to equity shareholders of the Company	$ (0.04)	$ (0.09)	$ (0.03)
Basic and diluted loss per share attributable to equity shareholders of the Company - continuing operations	$ (0.12)	$ (0.03)	$ (0.03)
Total assets	$ 4,138,189	$ 12,845,169	$ 10,249,212
Non-current financial liabilities	$ -	$ -	$ -

Selected quarterly information (unaudited)

The table below summarizes the Company's eight most recently completed quarters (in thousands of Canadian dollars, except for share and per share amounts, or as noted).

	Sep 30, 2018	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017 *(Note 1)*	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016
Project development costs *(Note 2)*	$ (369)	$ (718)	$ (984)	$ (873)	$ -	$ -	$ -	$ -
Property investigation costs *(Note 2)*	(435)	(29)	(58)	(18)	-	-	-	-
Write-down of stockpile material rights	(4,970)	-	-	-	-	-	-	-
Write-down of equipment	(453)	-	-	-	(18)	-	-	-
Other expenses	$ (456)	$ (547)	$ (764)	$ (789)	$ (502)	$ (212)	$ (272)	$ (219)
Income (loss) from continuing operations	(6,669)	(1,322)	(1,771)	(1,634)	(767)	(323)	(338)	85
Income (loss) from discontinued operations	7,945	-	-	-	(2,889)	-	-	-
Net (loss) income	1,276	(1,322)	(1,771)	(1,634)	(3,656)	(323)	(338)	85
Basic and diluted (loss) income per share attributable to equity shareholders	$ 0.01	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.01)	$ (0.01)	$ (0.00)
Basic and diluted loss per share attributable to equity shareholders - continuing operations	$ (0.07)	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.00)
Weighted average number of shares (millions)	101	101	83	81	72	40	40	40

Note 1: Write-down of exploration and evaluation assets of $2,889,392 during the year ended September 30, 2017 has been reclassified to income (loss) from discontinued operations to conform to the current year's presentation.
Note 2: Prior periods' project development costs and property investigation costs have been restated to conform to the current quarter's presentation.

5. Liquidity, going concern and capital resources

5.1 Liquidity and going concern

As at September 30, 2018, the Company had cash and cash equivalents of $1,210,003 (September 30, 2017 - $4,222,961) and working capital of $688,353 (September 30, 2017 – $1,828,591). Cash and cash equivalents decreased by $3,012,958 during the year.

On July 21, 2017, the Company acquired the rights to take delivery of zinc material stockpiles located in Kosovo with a view to develop processes to efficiently produce zinc and other metals from this stockpile and other third party sources. During the year ended September 30, 2018, the Company focused the activities of the pilot plant on the recovery of zinc and other metals from feed material called EAFD. To process such feed material commercially, the Company plans to construct a full-scale zinc recovery plant. However, the Company will require significant amounts of capital in order to secure land, build the plant and achieve commercial production, and produce zinc and other metals economically.

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, achieve commercial production, and produce zinc and other metals economically. Even if adequate funds are available, there is no guarantee that the Company will achieve commercial production to generate future cash flows. Although the Company raised gross proceeds of $3,999,000 during the year ended September 30, 2018, the Company does not have sufficient funds to fully develop its zinc operations, achieve commercial production and produce zinc and other metals economically. As a result, material uncertainties exist that may cast significant doubt with respect to the Company's ability to continue as a going concern.

In addition to the development of the Company's zinc operations, the Company has commitments and contingencies which could have a future effect on its liquidity. Effective October 1, 2018, the Company has a five-year lease commitment for its Canadian head office premises (see Sections 9.1 and 10.4 in this MD&A and Note 21 of the consolidated financial statements for the year ended September 30, 2018). The Company also has number of outstanding legal matters in Macedonia, including the resolution of documentation and agreements with PRG in connection with the pilot metal recovery plant which could result in potential Macedonian value-added tax payments and recoveries.

5.2 Share Capital

On July 21, 2017, the Company completed the acquisition of 100% of the shares of Power Zinc Limited, a majority-owned subsidiary of PRG Plc. 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. On completion of the acquisition, the Company had 79,525,540 shares issued and outstanding.

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.

On March 1, 2018, the Company granted 50,000 stock options to an employee of the Company. The options are subject to certain vesting provisions and are exercisable over five years at an exercise price of $0.24 per share.

On March 29, 2018, the Company closed the first tranche of a non-brokered private placement pursuant to which it issued 12,725,000 units at a price of $0.20 per unit for gross proceeds of $2,545,000.

On April 10, 2018, the Company closed the second and final tranche of the private placement pursuant to which it issued 7,270,000 units at a price of $0.20 per unit for gross proceeds of $1,454,000. The Company also issued a finder's fee of 158,100 units to third party finders in connection with the closing of the second tranche.

Combined with the first tranche (but not including the finders' fee units), the Company issued an aggregate of 19,995,000 units for total gross proceeds of $3,999,000. Each unit of the private placement consists of one common share and one share purchase warrant. Each warrant gives the holder the right to acquire a further common share of the Company at a price of $0.40 for a term of five years. The expiry of the warrants may however be accelerated at the election of the Company in circumstances where, at any time following 4 months from the issuance of the warrants, the closing price of the Company's shares on the TSX Venture Exchange ("TSXV") is equal to or greater than $0.75 for 20 consecutive trading days. In such case, the Company may give notice to the holders of the warrants that the warrants will expire 30 days following such notice. None of the warrants expired 4 months following their issuance as the closing price of the Company's shares on the TSXV did not reach $0.75 during this period.

On June 21, 2018, the Company's shareholders approved a share appreciation rights plan ("SARs Plan") which authorizes the directors of the Company to grant SARs to directors, officers, employees and consultants of the Company, excluding consultants performing investor relations activities. Pursuant to a SAR agreement (the "SAR Agreement"), a SAR gives the holder the right to receive from the Company a cash payout equal to the difference between the fair market value of the Company's common shares at the time of exercise (determined as the closing price of such shares on the trading day prior to exercise) and the dollar amount set out in the SAR Agreement, which amount shall be not less than the Discounted Market Price (as defined under the policies of the TSX Venture Exchange).of the Company's shares at the time the SAR Agreement is entered into. The material terms of the SAR Plan are disclosed in Note 12(e) of the Company's consolidated financial statements for the year ended September 30, 2018.

During the year ended September 30, 2018, 496,666 options were exercised at a price of $0.125 and 2,199,334 stock options expired unexercised. Of the expired options, 220,000 had an exercise price of $0.12 per share, 550,000 had an exercise price of $0.095 per share and 1,429,334 had an exercise price of $0.125 per share.

Following the issuance and expiry of the above options, the Company has a total of 5,043,500 options outstanding pursuant to its stock option plan, which represent approximately 5% of the issued and outstanding common shares of the Company.

As at September 30, 2018 and as at May 24, 2019, the Company had 100,175,306 shares issued and outstanding and the following options outstanding and exercisable:

As at September 30, 2018		As at May 23, 2019			
Options outstanding	**Options exercisable**	**Options outstanding**	**Options exercisable**	**Exercise price**	**Expiry date**
639,500	639,500	-	-	$0.12	January 8, 2019
1,507,000	1,507,000	1,507,000	1,507,000	$0.095	April 2, 2020
2,257,000	2,257,000	1,232,000	1,232,000	$0.125	August 9, 2022
590,000	393,333	590,000	590,000	$0.15	October 5, 2022
50,000	33,333	50,000	50,000	$0.24	March 1, 2023
5,043,500	**4,830,166**	**3,379,000**	**3,379,000**		

As at September 30, 2018 and as at May 24, 2019, the Company had the following warrants outstanding and exercisable:

Warrants outstanding and exercisable	Exercise price	Expiry date
12,725,000	$0.40	March 29, 2023
7,428,100	$0.40	April 10, 2023
20,153,100		

6. Risk factors

An investment in the shares of the Company should be considered speculative due to the nature of the business of the Company, and involves significant risks which should be carefully considered by prospective investors. In addition to the other information set forth elsewhere in this MD&A, the following risk factors should be given special consideration when evaluating trends, risks and uncertainties relating to the Company's business, more particularly its zinc projects. Any of the following risks could have a materially adverse effect upon the Company, its business and future prospects. In addition, other risks and uncertainties not presently known by management of the Company could impair the Company's business in the future.

6.1 General

The Company's projects involve a degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The Company is subject to a variety of risks, many of which are outside the Company's control. Management has identified certain key risks, which are discussed below, along with their potential impact on the Company's operations. There is no assurance that the Company will achieve commercial production on its zinc projects.

6.2 Foreign operations

The Company expects that its zinc projects will take place principally in Macedonia and other neighbouring Balkan countries for the foreseeable future. As such, the Company's operations are subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability, changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, and export licensing and export duties. The Company endeavours to operate in such a manner in order to minimize and mitigate its exposure to these risks. However, there can be no assurance that the Company will be successful in protecting itself from the impact of all of these risks.

6.3 Political risks

The Company's current focus is on its pilot metal recovery plant located in Macedonia. Operations in Macedonia are subject to risks due to the potential for social, political, economic, legal and fiscal instability. The governments in Macedonia and in neighbouring countries which may affect Macedonia face ongoing issues such as inflation, unemployment and inequitable income distributions. Such instability may impact the Company's operations on its properties as future political actions, which may adversely affect the Company, cannot be predicted. Future operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, obtaining and maintenance of licenses, environmental legislation, land use, land claims of local people, and water use. Changes, if any, in foreign investment policies or shifts in political attitudes in the Balkans may adversely affect the Company's operations or profitability.

Failure to comply strictly with applicable laws, regulations and local practices relating to the Company's zinc assets could result in loss, reduction or expropriation of entitlements. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's consolidated results of operations and financial condition.

6.4 Fluctuations in the prices of zinc and other metals

The prices of zinc and other metals have fluctuated widely during recent years and are determined by various factors outside the Company's control, including supply and demand, general economic conditions, inflation, political instability, government regulation and taxes, and changes in global production of such metals. Such fluctuations will have a positive or negative effect on any revenue that the Company may receive in the future. If zinc and other metal prices become depressed or decline, the Company's potential revenue and earnings and the value of its assets would be expected to decline.

6.5 Foreign exchange rates and foreign exchange controls

The operations of the Company in Macedonia or any of the countries in which the Company may operate in the future are subject to currency fluctuations against the Canadian dollar, the US dollar, the Euro and the Macedonian denar, and such fluctuations may materially affect the financial position and results of the Company.

The Company may be subject from time to time to foreign exchange controls in Macedonia and other countries in which it may operate outside of Canada.

6.6 Repatriation of earnings

There is no assurance that Macedonia or any of the countries in which the Company may operate in the future will not impose restrictions on the repatriation of earnings to foreign entities.

6.7 Environmental and other governmental regulations

The current and future operations of the Company, including development activities, construction and commercial production of its zinc and metals projects, may require permits from various state and local governmental authorities. Such operations are and will be governed by laws and regulations governing development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. The Company may experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. The Company believes it is currently in substantial compliance with all material laws and regulations that currently apply to its activities, particularly those in Macedonia where it has a pilot metal recovery plant. There can be no assurance, however, that all permits which the Company may require for the conduct of its operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in the imposition of fines or issuance of clean up orders in respect of the Company or its projects. Such legislation may be changed to impose higher standards and potentially more costly obligations. The Company endeavours to operate in such a manner to ensure it conforms to the standards and government regulations required for each jurisdiction in which it operates.

6.8 Dependence on key personnel

The business of the Company is highly dependent on the technical and financial ability of the Company's management. The Company has a small management team and any change in management of the Company could therefore have a negative effect on the business of the Company as it may not be successful in attracting suitably qualified personnel in the future. The Company does not have key person insurance in place.

6.9 Additional financing

To the extent that external sources of capital, including the issuance of additional common shares, become limited or unavailable, the Company's ability to make necessary capital investments to construct its proposed full scale hydrometallurgical zinc processing plant will be impaired.

6.10 Price volatility of public stock and shares reserved for future issuance

Publicly quoted securities are subject to a relatively high degree of price volatility. It may be anticipated that the quoted market for the common shares of the Company will be subject to market trends generally, notwithstanding any potential success of the Company's projects, and there may be significant fluctuations in the price of the Company's common shares.

The Company has reserved shares for issuance in respect of stock options and warrants granted to date. The Company may also enter into commitments in the future which could result in the issuance of additional common shares or the consolidation of its current outstanding share capital, and the Company may also grant share purchase warrants and additional stock options. Any issue of shares reserved for future issuance may result in dilution to the existing shareholdings.

6.11 Legal matters

Due to the nature of the Company's business, various legal matters are outstanding from time to time. The Company currently has a number of outstanding legal matters in Macedonia including the recovery of a deposit in connection with the Company's investigation of a potential site for a future full scale zinc processing plant, and the resolution of documentation and agreements with PRG in connection with the pilot metal recovery plant which could result in potential Macedonian value-added tax payments and recoveries. In the event that these matters are not resolved in the Company's favour, the Company's cash flow could be negatively impacted.

6.12 Conflicts of interest

Some of the directors and officers of the Company are, or may be, on the boards of other natural resource companies from time to time resulting in conflicts of interests. Some are also considered related parties. Therefore, there is the potential for a conflict of interest between the Company and some of its directors and officers. The Company requires its directors and officers to notify management and the board if they are aware of any conflicts.

6.13 Uninsurable risks

In the course of mineral production, certain risks, and in particular, unexpected or unusual operating conditions including, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons, or the amounts of its insurance may not be sufficient to fully insure against risks covered by insurance. Should liabilities arise as a result of insufficient insurance or uninsured risks, they could reduce or eliminate any future profitability and result in increased costs and a decline in the value of the securities of the Company.

6.14 General economic conditions

There has been a high level of volatility in the world financial markets over the past few years. This volatility has caused investors to become less willing to provide debt or equity financing to most companies and in particular to junior resource companies. This could potentially make completing financings for the Company difficult in the foreseeable future.

7. Off-balance sheet transactions

As at September 30, 2018 and May 24, 2019, the Company did not have any off-balance sheet arrangements.

8. Proposed transactions and subsequent events

There are no proposed transactions or reportable subsequent events during the period from September 30, 2018 through May 24, 2019.

9. Transactions between related parties

9.1 Transactions

The Company's related parties consist 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 and (c) an entity partly owned and having a cost-sharing agreement with the Company (see (a)(ii)), as follows:

	Nature of transactions involved	**Relationship to the Company**
Maluti Services Limited ("Maluti")	Management, general and administrative, and business development	CEO
TRG Resources Ltd.	Management	Former CEO
Jazz Financial Ltd. ("Jazz")	Management	CFO
Pangea Management Corp.	Consulting	Family member of CEO
Sterling West Management Ltd.	Management and general and administrative	See (ii) below
PRG Plc.	Construction and assembly of pilot metal recovery plant and project development costs	Director until August 31, 2018 (see (i) below) and significant shareholder

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.

		Years ended September 30,	
		2018	2017
Management fees	(ii)	**$ 638,528**	$ 276,058
General and administrative expenses	(ii)	**161,664**	179,033
Travel and business development		**108,241**	80,315
Consulting fees		**24,000**	24,000
Project development costs	(i)	**1,906,424**	1,211,030

(i) 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 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 Holding AG and advance cash payments from the Company of US$500,000 ($627,450).

The fee amounts for PRG's construction services at the time PRG became a related party from date of Acquisition to September 30, 2017 were $1,211,030, which was comprised: (a) cash payments of US$405,000 ($492,985) made by the Company to PRG, (b) US$283,788 ($356,125) of cash of Power Zinc held on its behalf by its parent PRG at Acquisition and (c) non-interest bearing accounts payable due to PRG of US$290,000 ($361,920) at September 30, 2017, which amounts were paid in November 2017.

The total fees pursuant to the PRG Services Contract amounted to US$1,273,317 ($1,619,463) during the year ended September 30, 2018. In addition, the Company paid PRG $286,960 for external security services at the pilot plant, rent for using PRG's leased premises for the pilot plant and the laboratory, and the reimbursement of miscellaneous laboratory and pilot plant equipment and supplies which the Company requested PRG to purchase on its behalf. As at September 30, 2018, the amount owing to PRG was $99,722 (September 30, 2017 – $361,920).

(ii) The Company is party to a shareholders' cost-sharing agreement with certain other public and private companies (the "Other Companies") pursuant to which the Company and the Other Companies are equal shareholders in Sterling West Management Ltd. ("Sterling") and, through Sterling, share office space, furnishings, equipment and communications facilities (on a cost recovery basis) and the employment of various administrative, office and management personnel in Vancouver, British Columbia, Canada. Costs of the shared office facilities and the shared employees are recovered from the Company in proportion to the time spent by the shared employees on matters pertaining to the Company. During the year ended September 30, 2018, the Company's share of management and overhead costs was $288,280 (year ended September 30, 2017 – $259,828).

As at September 30, 2018, the amount owing to Sterling was $30,100 (September 30, 2017 – $31,732). As at September 30, 2018, the Company had a deposit of $57,000 with Sterling (September 30, 2017 – $57,000) which is included in prepaid expenses and deposits.

Effective October 1, 2018, the Company entered into a five-year lease commitment for its head office premises in Vancouver, British Columbia, Canada. As Sterling and the Other Companies share the premises with the Company, it is anticipated that a portion of the cost of the lease will be allocated to Sterling and the Other Companies as long as they continue to share the premises.

9.2 Compensation of key management personnel

The remuneration of members of key management personnel during the years ended September 30, 2018 and 2017 was as follows:

			Year ended September 30,		
			2018		2017
Remuneration	(i)	**$**	**692,527**	$	157,603
Director's fees			**16,072**		37,174
Share-based payments	(ii)		**157,506**		81,017
		$	**866,105**	$	275,794

(i) Remuneration includes management fees disclosed in section 9.1 above, which includes remuneration paid to a former CEO through his private company. Remuneration also includes (a) termination fees of $150,786 (US$120,000) paid to two former CEOs of the Company and (b) the remuneration paid to one of those former CEOs personally and not through a private company.

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

The services of the Company's CEO and CFO are provided pursuant to management services contracts with Maluti and Jazz, respectively. Under the terms of these contracts, in the event of termination without cause, as defined by these contracts, Maluti and Jazz are entitled to termination payments of US$240,000 ($310,680) and US$180,000 ($233,010), respectively.

Except as disclosed under note 9.2 (i) above, key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the year ended September 30, 2018 and 2017. Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at September 30, 2018 included directors' fees of $nil (September 30, 2017 – $2,739).

10. Financial instruments

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

10.1 Fair value of financial instruments

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.

10.2 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.

10.3 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, GST receivables from the government of Canada and value-added tax receivables from the government of Macedonia. The carrying values of the financial assets represent the maximum credit exposure.

10.4 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. The Company's cash is invested in business accounts and is available on demand.

Funding risk is the risk that the Company may not be able to raise equity 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 equity financing.

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 as at September 30, 2018:

	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	$ 717,312	$ -	$ 717,312
Loans payable	227,677	-	227,677
Lease commitments	123,583	609,028	732,611
Total	$ 1,068,572	$ 609,028	$ 1,677,600

The Company is party to an agreement with Eiger Holding AG which gives 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 zinc and other metals produced from a full-scale metal processing plant that the Company intends to construct, as more fully described in Note 11(b) of the Company's consolidated financial statements for the year ended September 30, 2018.

In connection with this lease, the Company has a $25,973 deposit with the landlord. This amount has been recorded as “deposit” on the Company’s consolidated statement of financial position as at September 30, 2018.

The Company also has sublease agreements for its pilot plant premises and its laboratory premises with PRG Plc. Both sublease agreements are effective until June 30, 2020, but they can be terminated by either the Company or PRG Plc. with 30 days’ written notice. The monthly amounts under the sublease agreements are 2,221 euros ($3,748) for the pilot plant and 30,467 Macedonian denars ($742) for the laboratory. These amounts have not been included in the table above because of the month-to-month nature of the expense.

10.5 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.

Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates of 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.

Foreign currency risk

Some of the Company’s cash, expenditures, loans and accounts payable are denominated in US dollars, 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.

11. Adoption of accounting standards and pronouncements under IFRS

11.1 Application of new and revised IFRSs

Effective October 1, 2017, there were no material new or revised IFRS that were issued by the IASB that were adopted by the Company.

11.2 Accounting standards issued but not yet effective

Certain pronouncements have been issued by the IASB that are mandatory for accounting years beginning on or after October 1, 2018 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 3, Business Combination

The amendments to IFRS 3 related to providing additional guidance for applying the acquisition method to particular types of business combinations are effective for annual periods on or after January 1, 2019. Further amendments effective for annual periods on or after January 1, 2020 are aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

(iii) 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.

(iv) New standard IFRS 9, Financial Instruments

Replacement of IAS 39 Financial Instruments: Recognition and Measurement. Effective annual periods on or after January 1, 2018.

(v) 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.

(vi) New standard IFRS 16, Leases

IFRS 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.

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12. Critical accounting estimates and critical accounting 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, which 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 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.

Critical accounting judgements

(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.

(b) Project development costs

As set out in Note 3(i) project development costs are capitalized when the Company can demonstrate that certain criteria are all met. The accounting policy requires management to make certain estimates and assumptions as to future events and circumstances, including judgments about technical feasibility, whether it is likely that future economic benefits will flow to the Company, and the availability of adequate technical, financial and other resources to complete the development, which may be based on assumptions about future events or circumstances. These estimates and assumptions may change as new information becomes available.

(c) Estimation of useful life of the pilot plant

The Company determines the estimated useful lives and related depreciation for its pilot plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

(d) Impairment of assets

Significant judgment is exercised in connection with the assessment of whether exploration and evaluation assets, stockpile material rights, and the pilot metal recovery plant and equipment are impaired, including the determination of and allocation of assets to CGUs for the purposes of impairment testing. The determination of CGUs requires judgment when determining the lowest level for which there are separately identifiable cash inflows generated by the asset category. The application of the Company's accounting policies 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. At each balance sheet date, management reviews whether events or circumstances have occurred to indicate that the carrying amounts of the Company's long-lived assets with finite useful lives may be less than their recoverable amounts. Underlying assumptions used in this assessment are influenced by industry conditions, economic uncertainty and management's intention at the point of assessment. Judgment used in determining whether an asset or asset group is impaired, the recoverable amount of an asset or CGU may affect the amount of the impairment loss to be recorded to an asset or CGU, as well as the potential reversal of the impairment charge in the future.

(e) 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.

(f) 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.

(g) 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.

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.

(h) 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.

(i) Determination of cash generating units (“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.

(j) 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.

(k) 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 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. During the year ended September 30, 2018, the Company determined that, as its oil and gas activities in PNG had substantially ceased, its operations were inactive and that it did not intend to conduct any further activities in Papua New Guinea. Consequently, the Company wrote off the OCI related to all of its remaining PNG oil and gas concessions.

(l) Contingencies

Due to the nature of the Company’s operations, various legal, tax, environmental and regulatory matters are outstanding from time to time. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

The Company is pursuing the recovery of a deposit paid in connection with the Company’s investigation of a potential site for a future full-scale zinc processing plant through the legal system in Macedonia. The outcome of this matter is currently uncertain.

The Company has determined that not all necessary in-country legal agreements in Macedonia were completed in the transaction with PRG (the "Agreements") and the Company is currently in the process of finalizing these Agreements with PRG. These Agreements will also formalize the previously verbal agreement with PRG for PRG to complete the construction of the pilot metal recovery plant for the Company at a total construction cost consideration of US$2,500,000 ($3,120,000).

The Company believes that it retains title to all assets purchased from PRG on July 21, 2017 (including the pilot metal recovery plant construction in progress) and that it retains title to all subsequent work performed by PRG to construct the pilot metal recovery plant for the Company in 2017. As a result of preparing the Agreements, the Company identified that it could potentially owe value-added taxes payable of approximately $45,000 to PRG, which the Company has recorded in accrued liabilities as at September 30, 2018. As the Company is entitled to reclaim VAT amounts paid, it has also recorded an equivalent amount in accounts receivable from the government of Macedonia as at September 30, 2018.
While the outcomes of these matters are uncertain, based upon the information currently available, the Company does not believe that these matters in aggregate will have a material adverse effect on its financial statements. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in its financial statements in the period in which such changes occur.

(m) Going concern

Concluding that the going concern assumption is appropriate based on 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 requires judgement.

13. Limitations of controls and procedures

The Company's President & CEO and the Chief Financial Officer believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, the Company's management cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. Inherent limitations include flawed decision making or simple errors. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by unauthorized override of the control.

The design of any control system is also based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. The Company's officers are not required to certify the design and evaluation of the Company's disclosure controls and procedures and internal controls over financial reporting and have not completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective basis disclosure controls and procedures and internal controls over financial reporting for the Company may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

14. Cautionary statement on forward-looking information

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as “forward-looking statements”) within the meaning of Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as “anticipate”, “believe”, “plan”, “continuous”, “estimate”, “expect”, “may”, “will”, “project”, “should”, or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements pertaining to the following:

- Physical properties of the stockpile material, including grades and volumes;
- Pilot metal recovery plant, including expected useful life;
- Future location for a commercial plant;
- Environmental permitting;
- Capital expenditures; and
- Sources of funding.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not in fact be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders.

Risk factors affecting future results include, but are not limited to: financing risks, price volatility of the Company’s stock, prices of zinc and other metals, dependence on key personnel, uninsurable risks, conflicts of interest, and risks of operating in foreign countries, including political risk, government regulation, environmental risks, exchange controls and variations in exchange rates.

Forward-looking statements are based on the Company’s current beliefs as well as assumptions made by, and information currently available to, the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, the impact of increasing competition, and the ability to obtain financing on acceptable terms. Although management considers these assumptions to be reasonable based on information currently available, they may prove to be incorrect.

Certain of the forward-looking statements in this MD&A may constitute “financial outlooks” as contemplated by National Instrument 51-102 Disclosure Obligations, including information related to projected revenues, expenses, capital expenditures for 2019 and future years, which are provided for the purpose of forecasting the financial position of the Company. Please be advised that the financial outlook in this MD&A may not be appropriate for purposes other than the one stated above.

The forward-looking statements contained in this MD&A are made as of the date thereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, except as required by applicable law. The forward-looking statements contained herein are expressly qualified by this cautionary statement.