



**MANAGEMENT DISCUSSION AND ANALYSIS  
(For the three and nine months ended June 30, 2016)**

*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 Energy Ltd. ("Esrey" or the "Company") as at and for the three and nine months ended June 30, 2016 and 2015.*

*This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto as at and for the three and nine months ended June 30, 2016, and the audited consolidated financial statements for the year ended September 30, 2015. These unaudited condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and are in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting, 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](http://www.sedar.com).*

*The effective date of this MD&A is August 18, 2016.*

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## **Contents of the MD&A**

1. Highlights for the nine months ended June 30, 2016
2. Overview, operational update and oil and gas property work program requirements
  - 2.1 Papua New Guinea
  - 2.2 Bulgaria
  - 2.3 Poland
  - 2.4 United States
3. Results of operations
  - 3.1 Results of operations for the three and nine months ended June 30, 2016 and 2015
4. Selected Annual Information
5. Liquidity, going concern and capital resources
  - 5.1 Liquidity and going concern
  - 5.2 Impairment
  - 5.3 Share capital
6. Risk factors
  - 6.1 General
  - 6.2 Exploration, drilling and operating risks
  - 6.3 Title to properties
  - 6.4 Fluctuations in the prices of oil and natural gas
  - 6.5 Political risks
  - 6.6 Additional financing
  - 6.7 Dependence on key personnel
  - 6.8 Foreign exchange rates
  - 6.9 Foreign investments
  - 6.10 Environmental regulation
  - 6.11 Governmental regulations
  - 6.12 General economic conditions

7. Off-balance sheet transactions
  8. Transactions between related parties
  9. Proposed transactions
  10. Financial instruments
    - 10.1 Fair value of financial instruments
    - 10.2 Financial risk management
    - 10.3 Credit risk
    - 10.4 Liquidity and funding risk
    - 10.5 Market risk
  11. Adoption of accounting standards and pronouncements under IFRS
    - 11.1 Application of new and revised IFRSs
    - 11.2 Accounting standards issued but not yet effective
  12. Critical accounting estimates
  13. Cautionary statement on forward-looking information
  14. Subsequent events
- 

## **1. Highlights for the three and nine months ended June 30, 2016**

- During the nine months ended June 30, 2016, Esrey Energy Ltd (“the Company” or “Esrey”) recorded net income from continuing operations attributable to equity shareholders of the Company of \$89,393 (nine months ended June 30, 2015 – net income \$176,791).
  - During the three months ended June 30, 2016, decreases in the Company’s expenses compared to the three months ended June 30, 2015 were as follows:
    - A decrease in general and administrative expenses by 40% or 43,114;
    - A decrease in professional fees by 51% or \$154,284;
    - A decrease in share based payments by 100% or \$122,049; and
    - A decrease in travel and business development by 100% or \$37,283.
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## **2. Overview, operational update and oil and gas property work program requirements**

Esrey is a Canadian exploration and development company focused on developing oil and gas reserves in Papua New Guinea and Bulgaria. On November 13, 2013, the Company changed its name from LNG Energy Ltd. to Esrey Energy Ltd. The Company’s shares trade on the TSX Venture Exchange under the symbol “EEL.”

## ***2.1 Papua New Guinea***

### **Business Transactions**

#### ***Heritage farm-in agreement***

On April 22, 2013, the Company closed a farm-in agreement with Heritage, under which Heritage acquired an 80% participation interest in PPL 486 and PRL 13, subject to the fulfillment of certain work commitments, in exchange for US\$7,522,079. In addition to the cash payment, Heritage also committed to fund the acquisition of a minimum of an additional 78km of seismic within the license areas and the drilling and completion of one exploration well in PPL 486 to a depth sufficient to test identified exploration targets. In May 2014, Heritage informed the Company that it had acquired a total of 235km of seismic, of which 215km was acquired on PPL 486 and 20km was acquired on PRL 13.

#### ***Amendment to Heritage farm-in agreement***

On May 30, 2014, Telemu, LNG Energy (PNG) Limited and LNG Energy No. 2 Limited, entered into an amendment to the farm-in agreement with wholly owned subsidiaries of Heritage in Papua New Guinea. In exchange for the extension of the deadline to spud the first exploration well from October 1, 2014, to December 31, 2015, the farm-in agreement was amended and Telemu received:

- a further cash payment of US\$2,500,000;
- a further carry by Heritage for 30% of Telemu's 20% share of costs in a second exploration well in the event that a second well is drilled; and
- a further carry by Heritage through the funding of 100% of any joint operating costs incurred between the time Heritage fulfills its obligations with respect of the first exploration well until the earlier of the spud of the second exploration well and the 180<sup>th</sup> day following the date of testing and suspension or abandonment of the first exploration well.

#### ***Current position with respect to the Heritage farm-in agreement***

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 amended farm-in agreement. Heritage advised the Company that it would retain the 40% interest already earned as permitted under the terms of the amended agreement, and wished to re-transfer the remaining 40% participating interest in the licenses back to the Company's subsidiaries Telemu and LNG Energy, who then assumed operatorship of the licenses. Upon the re-transfer, Esrey, through Telemu and LNG Energy, holds a 50.55% net interest in PPL 486 and a 60% net interest in PRL 13.

On September 29, 2015, Telemu and LNG PNG filed the necessary documents with the DPE to assume operatorship of PPL 486 and PRL 13 with immediate effect. Subsequent to year-end 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 are required to be acknowledged by the Minister. As of the date of this report, this acknowledgement has not been received.

### **Licenses**

As at June 30, 2016 the Company held approximately 2.4 million acres of land for oil and natural gas exploration through a 50.55% working interest in PPL 486 (formerly PPL 319), an 84.25% working interest in oil and natural gas exploration PPL 321, and a 60% working interest in PRL 13. In August 2014, the Company submitted an application to simultaneously surrender and top-file PPL 321. PPL 321 expired in November 2014 and, as of August 18, 2016 the Company has not received a formal response from the Department of Petroleum and Energy ("DPE"). If the Company's top-file application for PPL

321 is not successful, the acres of land the Company holds for oil and natural gas exploration would decrease by 1.8 million acres to 0.6 million acres. In November 2014, PPLs 320 and 322 expired and were allowed to lapse.

#### *PPL 486*

PPL 486 was obtained in June 2014, and is the result of the top-filing of PPL 319. PPL 486 is located in Southeastern Papua New Guinea in the Papuan Basin approximately 30 km southeast of the Southeast Gobe (“SE Gobe”) oil and gas field.

PPL 486 encompasses the same territory as PPL 319 did and has a six year term, commencing in June 2014, along with conditional work and expenditure commitments, to be no less than US\$30 million during the initial two years. The entire work program includes:

- During years 1 and 2: acquisition of a minimum of 50km of seismic and the drilling of the first exploration well;
- During years 3 and 4: analysis of the data acquired in years 1 and 2, acquisition of an additional minimum of 50km of seismic, and the drilling of a second exploration well; and
- During years 5 and 6: analysis of data from the previous four years and the drilling of a third exploration well.

On September 11, 2015, the Company was informed that the Minister had approved a variance to move the requirement for 50km of seismic from Years 1 and 2 into Years 3 and 4 thereby bringing the total seismic requirement for Years 3 and 4 to 100km. On June 10, 2016, a variance was filed with the DPE requesting a change in the work program for PPL 486. This variance would move the well requirement for Years 1 and 2 into Years 3 and 4 with an option for additional seismic in place of the well. As of August 18, 2016, approval for the variance has not been received.

Up until September 22, 2015, the Company had a 16.85% interest in PPL 486. Due to Heritage not fulfilling its final commitment under the farm-in agreement, Heritage advised the Company that it would re-transfer the other 40% participating interest in the licenses back to the Company’s subsidiary Telemu No. 18 Limited (“Telemu”). Therefore as at June 30, 2016, the Company has a 50.55% working interest in PPL 486.

#### *PPL 321*

In August 2014, the Company submitted an application to simultaneously surrender and top-file PPL 321, which comprises 1.8 million acres held for oil and natural gas exploration and is located in Northern Papua New Guinea overlying the Ramu Basin. PPL 321 expired in November 2014 and, as of August 18, 2016 the Company has not received a formal response from the DPE. On September 30, 2015, the Company had fully impaired the carrying amount of \$883,760 (1.9 million kina) with respect to PPL 321. The Company has continued to evaluate PPL 321 utilizing recently reprocessed seismic data and updated geological models.

## PRL 13

PRL 13 is also located in Southeastern Papua New Guinea in the Papuan Basin approximately 30 km southeast of the SE Gobe oil and gas field. In June 2014, the Company received a three-year extension for PRL 13, commencing in June 2014 and ending in June 2017. The license has the following conditional work and expenditure commitments:

- Years 1 and 2: acquisition of a minimum of 20km seismic carrying a value of US\$2.8 million, analysis of the seismic acquired and planning of a well, if a well prospect is identified; and
- Year 3: acquisition of additional seismic if no drillable prospect is identified.

Prior to the granting of the extension, the Company had acquired approximately 20km of seismic on PRL 13. The years 1 and 2 seismic portion of this work commitment has been fulfilled.

Due to Heritage not fulfilling its final commitment under the farm-in agreement, on September 22, 2015, Heritage advised the Company that it would re-transfer the other 40% participating interest in the licenses back to the Company's subsidiary, LNG Energy (PNG) Limited ("LNG PNG"). Therefore as at June 30, 2016, the Company has a 60% working interest in PRL 13.

All of the licenses are subject to a 22.5% back-in participation right in favour of the government. The government may exercise this right at any point in time in exchange for 22.5% of the costs incurred in the development of the property until that point in time. The government also has a 2% royalty over any oil and natural gas production that may occur with respect to these licenses.

If the Company does not meet the expenditure and work program requirements outlined above, it may result in the loss of the licenses if variation applications are not approved by the DPE.

License #	Blocks	Esrey's W.I.*	Total Acreage	Expiry Date
PRL 13	2	60.00%	40,031	January 2017
PPL 486	25	50.55%	500,388	June 2020
PPL 321	92	84.25%	1,841,426	November 2014 **
	<b>119</b>		<b>2,381,845</b>	

\* Working interest as at June 30, 2016

\*\* Application to simultaneously surrender and top file was submitted in August 2014, and the Company has not yet received a formal response from the DPE. PPL 321 expired in November 2014.

## 2.2 Bulgaria

The Company has a farm-in agreement with TransAtlantic Worldwide Ltd. ("TransAtlantic"), a wholly owned subsidiary of TransAtlantic Petroleum Ltd., to earn a 50% interest in a future production concession in northwest Bulgaria (the "Etropole Concession"). The application for the Etropole concession was submitted in November 2011, amended in April 2012 and denied in July 2014. The denial was partially due to the ban on fracture stimulation enacted by the Bulgarian Parliament in January 2012. In August 2014, TransAtlantic and the Company filed a formal appeal to the denial of the Etropole concession. The appeal was heard by the relevant court on November 23, 2015. On February 23, 2016, the court issued a ruling supporting the Company's position and remanded the case back to the Ministry of Energy for reconsideration using specific guidelines. The Ministry of Energy has the right of appeal. As of the date of the MD&A, the Company has not received a notice that a formal appeal has been filed.

Pursuant to the terms in the farm-in agreement with TransAtlantic, the Company is expected to fund up to US\$20 million in exchange for a 50% undivided interest in the Etropole Concession. As at December 31, 2014, EEL had funded US\$7,492,122 towards the drilling of a 3,190 m (10,466 ft) exploration well on the A-Lovech exploration license, which targets the Middle Jurassic Etropole formation in Bulgaria. US\$7.5 million of the remaining funding is expected to be used to drill a second well or for other exploration activities on the Etropole Concession after the concession has been granted. If the Etropole Concession is granted and the concession covers an aggregate amount equal to or greater than 200,000 acres, then an additional US\$5 million is payable to TransAtlantic.

The Company continues to assess the impact of the legislation to its operations in Bulgaria and the Bulgarian assets remain fully impaired as at June 30, 2016.

### **2.3 Poland**

#### Saponis investment

On March 31, 2015, the Company withdrew from its Polish investment in Saponis, which holds the Slupsk concession. In accordance with the withdrawal agreement, the Company transferred its 42.96% interest in Saponis to BNK, paid the final cash call of US\$100,000 and assigned and forgave its loan receivable from Saponis in exchange for BNK assuming the future obligations of Saponis. As at June 30, 2016, the Company's investment in Saponis remains at \$Nil.

#### Ilawa and Wegrow concessions

As of February 28, 2015, the Company, along with its joint venture partner San Leon Energy Plc ("San Leon"), informed the Ministry of Geology that the Ilawa concession was being relinquished. As at June 30, 2016, the Company is in the process of exiting from its investment in Joyce Podlasie LLC ("Joyce") and the Company's investment in Joyce remained at \$Nil.

The Wegrow concession expired in June 2014, which resulted in a full impairment of both the Wegrow exploration and evaluation costs by Maryani and the Company's investment in the Maryani Podlasie LLC joint venture during the year ended September 30, 2014. As at June 30, 2016, the Company is in the process of exiting from its investment in Maryani and the Company's investment in Maryani remained at \$Nil.

### **2.4 United States**

#### Sheridan County, Montana

In March 2015, the Company relinquished all of its oil and gas leases in Sheridan County and plugged and abandoned the Archer well. The remaining costs associated with the oil and gas leases were impaired in full during the three months ended December 30, 2014, and the net book value of both the oil and gas leases and the Archer well remained at \$Nil as at June 30, 2016.

#### Cascade County, Montana

On December 2014, the Company relinquished all of its oil and gas leases in Cascade County and, as at June 30, 2016, the costs associated with these oil and gas leases was \$Nil.

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### 3. Results of operations

The review of the results of operations should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the three and nine months ended June 30, 2016 and 2015.

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

Table 1

	June 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015	June 30, 2015	Mar 31, 2015 (ii)	Dec 31, 2014	Sept 30, 2014 (i)
Income (loss) before tax and discontinued operations	(308)	(1,036)	(47)	(597)	1,430	149	(2,806)	(235)
Loss from discontinued operations	-	-	-	(21)	(2)	(611)	(88)	(3,685)
Net (loss) income attributable to equity shareholders of the Company	<u>(327)</u>	<u>(1,011)</u>	<u>1,242</u>	<u>(397)</u>	<u>1,460</u>	<u>(359)</u>	<u>(1,161)</u>	<u>(3,920)</u>
Basic and diluted (loss) income per share from								
Continuing operations	(0.01)	(0.03)	0.03	0.01	0.04	0.01	(0.03)	(0.01)
Discontinued operations	-	-	-	-	-	(0.02)	-	(0.09)

(i) These balances have been retroactively adjusted for the recasting of certain comparative information related to discontinued operations.

(ii) Figures for this quarter have been restated for the misstatements discussed below under "Disclosure Corrections".

#### Disclosure Corrections

Subsequent to the issuance of the financial statements and MD&A for the quarter ended March 31, 2015 the Company determined that there were misstatements in the interim financial statements for that quarter. The misstatements occurred in the measurement of the transfer of translation losses from other comprehensive income to the income statement as required under IFRS following the exiting of an investment during the period, and in the accounting for a return of capital to a non-controlling shareholder in one of the Company's subsidiaries. The result of these adjustments is that the net loss in the second quarter of 2015 was misstated as follows (in thousands of Canadian dollars):

Table 2

	Three and six months ended March 31, 2015
Net loss attributable to equity shareholders as previously reported	(3,486)
Adjustment to AOCI transferred to income following exit from investment	2,662
Adjustment to reflect return of capital to a minority shareholder as a reduction to NCI	465
Net loss attributable to equity shareholders as adjusted	<u>(359)</u>

### 3.1 Results of operations for the three and nine months ended June 30, 2016 and 2015

The table below sets forth selected results of operations for the Company for the three and nine months ended June 30, 2016 and 2015 (in Canadian dollars).

Table 3

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
<b>Expenses</b>				
Depreciation	\$ 2,755	\$ 3,685	\$ 8,940	\$ 11,079
General and administrative expenses	65,419	108,533	255,526	344,732
Professional fees	150,694	304,978	647,986	845,411
Share-based payments	260	122,309	34,724	135,899
Travel and business development	157	37,440	4,060	59,202
Impairment of exploration and evaluation assets	-	30,856	-	2,773,637
	(219,285)	(607,801)	(951,236)	(4,169,960)
<b>Other income (expense)</b>				
Accretion expense	-	(6)	-	(568)
Interest expense	-	(1,524)	-	(135,708)
Interest income	1,125	2,235	2,819	5,975
Other income	2,594	56,499	9,144	178,677
Gain (loss) on settlement of debt	-	2,137,145	-	2,137,145
Loss from disposal of equipment	61	-	(1,913)	-
Loss from investment in joint ventures	(13)	(38)	(67,909)	(2,426)
Foreign exchange gain (loss)	(89,418)	(156,157)	(378,900)	759,522
<b>Income (loss) for the period before tax</b>	<b>(304,936)</b>	<b>1,430,353</b>	<b>(1,387,995)</b>	<b>(1,227,343)</b>
Income tax recovery	(18,324)	22,233	1,258,499	1,875,014
Income (loss) from continuing operations	(323,260)	1,452,586	(129,496)	647,671
Loss from discontinued operations	-	(1,805)	-	(701,106)
<b>Net income (loss) for the period</b>	<b>\$ (323,260)</b>	<b>\$ 1,450,781</b>	<b>\$ (129,496)</b>	<b>\$ (53,435)</b>
<b>Attributable to:</b>				
Non-controlling interest	(6,152)	(9,175)	(43,392)	6,362
Equity shareholders of the Company	(317,108)	1,459,956	(86,104)	(59,797)
	\$ (323,260)	\$ 1,450,781	\$ (129,496)	\$ (53,435)
<b>Basic and diluted income (loss) per share</b>				
From continuing operations	\$ (0.01)	\$ 0.04	\$ (0.00)	\$ 0.02
From discontinued operations	\$ -	\$ (0.00)	\$ -	\$ (0.02)
<b>Condensed consolidated statements of financial position</b>				
	June 30, 2016	September 30, 2015		
Total assets	\$ 10,274,344	\$ 10,489,105		
Total long-term liabilities	\$ -	\$ -		

Net income (loss) attributable to equity shareholders of the Company

**Nine months ended June 30, 2016 and June 30, 2015**

For the nine months ended June 30, 2016 (“Q3-2016”), the Company reported a net loss attributable to equity shareholders of the Company of \$86,104, which related to continuing operations, compared to a net loss of \$59,797, of which \$701,106 of the net loss related to discontinuing operations and \$641,309 net income was from continuing operations, during the nine months ended June 30, 2015 (“Q3-2015”). The Company’s net loss attributable to equity shareholders of the Company increased by \$26,307 from Q3-2015 to Q3-2016 due to the following significant decreases in expenses or increases in revenue:

- A decrease in general and administrative expenses by 26% or \$89,206 mainly due to a decrease in office overhead, transfer agent and sedar fees in Q3-2016 compared to Q3-2015;
- A decrease in professional fees by 23% or \$197,425 in Q3-2016 due to a decrease in consulting and legal fees which were partly offset by the reversal of an over-accrual of audit fees Q3-2015;
- A decrease in share based payments by 74% or \$101,175 due to more stock options being vested in Q3-2015 compared to Q3-2016;
- A decrease in travel and business development by 93% or \$55,142 due to less travel occurring in Q3-2016 compared to Q3-2015;
- A decrease in the impairment of exploration and evaluation assets by 100% or \$2,773,637 due to no impairments recognized in Q3-2016. The impairments recognized in Q3-2015 related to the Sheridan and Cascade County oil and gas leases as well as the costs associated with the abandonment of the Archer well;
- A decrease in interest expense by 100% or \$135,708 in Q3-2016 due to the maturing of the Company’s non-revolving credit facilities in February 2015; and
- A decrease in the loss from discontinued operations by 100% or \$701,106 in Q3-2016. The loss from discontinued operations in Q3-2015 related to the withdrawal of the Company’s 42.96% investment in Saponis.

The above differences partly were offset by the following significant increases in expenses or decreases in revenue:

- A decrease in other income by 95% or \$169,533 due to higher royalties being received from an overriding royalty in the USA in Q3-2015;
- An increase in loss from the investment in a joint venture by over 100% or \$65,483 due to the Company transferring funds to its subsidiary on behalf of its joint venture partner based on the Debt Settlement Agreement dated March 31, 2015 (see section 5.1 for details on the Agreement);
- An decrease in gain on settlement of debt by 100% or \$2,137,145 based on the Debt Settlement Agreement;
- An increase in the loss on foreign exchange by 150% or \$1,138,422 due to fluctuations in exchange rates; and
- A decrease in income tax recovery by 33% or \$616,515 related to operations in the United States.

### ***Three months ended June 30, 2016 and June 30, 2015***

For the three months ended June 30, 2016, the Company reported net losses attributable to equity shareholders of the Company of \$317,108 which related to continuing operations, compared to net income of \$1,459,956 during the three months ended June 30, 2015 of which \$1,461,761 related to continuing operations. The Company's net losses attributable to equity shareholders of the Company increased by \$1,777,064 between the three months ended June 30, 2015 and 2016 due to the following significant increases in expenses or decreases in revenue:

- A decrease in other income by 95% or \$53,905;
- A decrease in gain on settlement of debt by \$2,137,145; and
- A decrease in income tax recovery by 43% or \$40,557.

These differences arose from similar reasons as described when comparing Q3-2016 to Q3-2015.

The above differences were partly offset by the following significant decreases in expenses or increases in revenue:

- A decrease in general and administrative expenses by 40% or 43,114;
- A decrease in professional fees by 51% or \$154,284;
- A decrease in share based payments by 100% or \$122,049;
- A decrease in travel and business development by 100% or \$37,283;
- A decrease in the impairment of exploration and evaluation assets by 100% or \$30,856 relates to the fluctuation in exchange rates. There was no impairment during the three months ended June 30, 2016 or 2015; and
- A decrease in foreign exchange loss by 43% or \$66,739 due to fluctuations in exchange rates.

The differences unexplained above arose from similar reasons as described when comparing Q3-2016 to Q3-2015.

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## **4. Selected annual information**

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	<b>Years ending September 30,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Total Revenues	\$ -	\$ -	\$ -
Income (loss) from continuing operations attributable to equity shareholders of the Company	\$ 265,829	\$ (3,592,921)	\$ 4,197,039
Basic and diluted loss per share	0.01	(0.11)	0.23
Net loss attributable to equity shareholders of the Company	\$ (456,569)	\$ (7,753,888)	\$ (2,395,260)
Basic and diluted loss per share	(0.01)	(0.23)	(0.13)
Total assets	\$ 10,489,105	\$ 15,030,176	\$ 20,589,620
Non-current financial liabilities	\$ -	\$ -	\$ 5,752,725

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## 5. Liquidity, going concern and capital resources

### 5.1 Liquidity and going concern

At June 30, 2016, the Company had cash and cash equivalents of \$7,023,372 (September 30, 2015 - \$6,782,208) and working capital of \$6,609,937 (September 30, 2015 - \$6,687,532). Cash and cash equivalents increased by \$241,164 during Q3-2016 mainly due to receiving a tax refund of US\$946,950 which more than offset the expenditures during the period. The majority of cash held by the Company is designated in US dollars. The closing exchange rate at September 30, 2015 of 1.3075 decreased to 1.2917 at June 30, 2016.

On March 31, 2015, the Company settled its non-revolving credit facilities of US\$3,377,776 in full in exchange for:

- US\$1,600,000;
- Funding the lender's share of certain work programs in Papua New Guinea ("PNG") that the parties are involved in; and,
- For 72 months after March 31, 2015, acquiring any new oil and gas licenses in PNG through the Company's subsidiary, Telemu, in which the lender has a 15.75% indirect interest.

The Company continues to be in the exploration stage and therefore has generated no revenues to date from its existing properties. The Company will be required to spend significant capital on its exploration and evaluation projects in order to meet the work commitments dictated by the terms of the concessions, determine whether commercially economical reserves exist and, if commercially economical reserves exist, to further develop the properties. As a result, the Company will be required to raise capital or seek other alternatives such as farm-in arrangements or the sale of properties in order to generate this capital.

There can be no assurance that funding will be available to the Company when needed or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may not be able to further develop its exploration and evaluation projects.

Even if adequate funds are available, there is no guarantee that the Company will meet the work commitments dictated by the terms of the concessions (Section 2). If the Company does not meet the work commitments required by the terms of a concession and it is not able to obtain an amendment or extension to the commitments, the Company risks losing the concession. Whether the Company meets the work commitments of a concession or not, there is no guarantee that the Company will discover commercially economical reserves or, if commercially economical reserves are found, there is no guarantee that the Company will be able to further develop its properties. The Company presently does not have sufficient funds to develop all of its existing properties and to continue with ongoing operations. As a result, material uncertainties exist with respect to the recovery of costs previously spent on capital projects and the ability to find, develop and produce oil and natural gas reserves. In turn, significant doubt may exist 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.

The Company's unaudited condensed consolidated interim financial statements for the three and nine months ended June 30, 2016 and 2015 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 Company's unaudited condensed consolidated interim financial statements for the three and nine months ended June 30, 2016 and 2015.

## 5.2 Impairment

The Company recorded no further write-down of exploration and evaluation assets during the nine months ended June 30, 2016. During the same quarter in 2015, the Company recorded an impairment of exploration and evaluation assets of \$2,773,637 following the relinquishment the Company's Sheridan and Cascade County oil and gas leases, and plugged and abandoned the Archer well, which led to the full impairment of the costs associated with these exploration and evaluation assets.

As at June 30, 2016, the Company's Bulgarian, Polish and United States exploration and evaluation assets and the Company's investments in the Joyce and Maryani joint ventures remained impaired in full.

Any changes to future market conditions or future information obtained about the Company's exploration and evaluation licenses may result in impairment, a further impairment or a reversal of impairment of any of the Company's exploration and evaluation assets.

## 5.3 Share Capital

During the nine months ended June 30, 2016, there were no changes to the Company's outstanding share capital. As at August 18, 2016 and June 30, 2016, the Company had 39,762,771 common shares outstanding.

As at August 18, 2016, the Company had the following options outstanding and exercisable:

<b>Options outstanding</b>	<b>Options exercisable</b>	<b>Exercise price</b>	<b>Expiry date</b>
874,000	874,000	\$0.12	January 8, 2019
2,134,000	2,134,000	\$0.095	April 2, 2020
<b>3,008,000</b>	<b>3,008,000</b>		

As at June 30, 2016, the Company had the following options outstanding and exercisable:

<b>Options outstanding</b>	<b>Options exercisable</b>	<b>Exercise price</b>	<b>Expiry date</b>
47,500	47,500	\$2.40	July 18, 2016
874,000	874,000	\$0.12	January 8, 2019
2,134,000	2,134,000	\$0.095	April 2, 2020
<b>3,055,500</b>	<b>3,055,500</b>		

During the nine months ended June 30, 2016, no new options were issued, 25,750 options (18,417 vested) were cancelled, and 1,430,000 options (including 14,667 that were cancelled) with an expiry date of April 2, 2020 vested. The weighted average remaining life of exercisable options is 3.35 years (September 30, 2015 – 3.35 years) and the weighted average exercise price of options exercisable at June 30, 2016 is \$0.14 (September 30, 2015 - \$0.30).

On July 18, 2016, 47,500 options outstanding and exercisable at \$2.40/share expired.

Share based payment expense recorded with regards to stock options during the three and nine months ended June 30, 2016 were \$260 and \$34,724 respectively (three and nine months ended June 30, 2015 - \$122,309 and 135,899 respectively).

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## **6. Risks factors**

### ***6.1 General***

The oil and gas industry is very competitive and 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 commercial quantities of oil and natural gas will be discovered by the Company.

### ***6.2 Exploration, drilling and operating risks***

The business of exploration for and production of oil, gas and other resources involves a high degree of risk. In particular, the operations of the Company may be disrupted, curtailed or cancelled by a variety of risks and hazards which are beyond the control of the Company, including environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected rock formations, flooding and extended interruptions due to inclement or hazardous weather conditions, mechanical difficulties, shortage or delays in the delivery of rigs and/or other equipment, compliance with governmental requirements, explosions and other accidents. These risks and hazards could also result in damage to, or destruction of, production facilities, personal injury, environmental damage, business interruptions, monetary losses and possible legal liability.

### ***6.3 Title to properties***

It is often not possible to conclusively determine title to an oil and gas interest, without incurring substantial expense. In accordance with industry practice, the Company will conduct such title review in connection with its principal properties as it believes is commensurate with the value of such properties. Governmental regulations and processing, approvals, licenses and permits are subject to the discretion of the applicable governments or governmental offices. The Company must comply with known standards, existing laws and regulations. New laws and regulations, amendments to existing laws and regulations, or more stringent enforcement of existing laws and regulations could have a material adverse impact on the Company's title to properties and correspondingly the Company's results of operations, financial condition and prospects.

### ***6.4 Fluctuations in the prices of oil and natural gas***

Oil and natural gas prices have fluctuated widely during recent years and are determined by various factors outside the Company's control, including supply and demand, weather, general economic conditions, political instability, government regulation and taxes, the price and availability of alternative fuels, and conditions in oil and gas regions around the world. Such fluctuations will have a positive or negative effect on any revenue that the Company may receive in the future. If oil and natural gas 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 Political risks***

The Company's principal licenses are located in Papua New Guinea and Bulgaria. Operations in Papua New Guinea and Bulgaria are subject to risks due to the potential for social, political, economic, legal and

fiscal instability. The governments in Papua New Guinea and Bulgaria 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, maintenance of licenses, environmental legislation, land use, land claims of local people, water use and well safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to exploration and evaluation 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.

### ***6.6 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 maintain or expand its oil and gas exploration and development activities will be impaired.

### ***6.7 Dependence on key personnel***

The Company has a small management team and the loss of a key individual or the inability to attract suitably qualified personnel in the future could materially and adversely affect the Company's business.

### ***6.8 Foreign exchange rates***

The Company will be subject to normal market risks including fluctuations in foreign exchange rates. While the Company expects to manage 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.

### ***6.9 Foreign investments***

The Company expects that its oil and gas exploration activities will take place principally outside of Canada 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, petroleum and export licensing and export duties as well as government control over domestic oil and gas pricing. 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.

### ***6.10 Environmental regulation***

The oil and gas industry is subject to environmental regulation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of the Company or its properties. 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.

### **6.11 Governmental regulations**

The Company's oil and gas concessions are subject to various federal and local governmental regulations. Matters subject to regulation include discharge permits for drilling operations, drilling and abandonment bonds, reports concerning operations, the spacing of wells, and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas. The production, handling, storage, transportation and disposal of oil and gas, by-products thereof, and other substances and materials produced or used in connection with oil and gas operations are also subject to regulation under federal and local laws and regulations relating primarily to the protection of human health and the environment. To date, expenditures related to complying with these laws, and for remediation of existing environmental contamination, have not been incurred in relation to the results of operations of the Company, although the Company anticipates incurring such expenses in the future. The requirements imposed by such laws and regulations are frequently changed and subject to interpretation, and the Company is unable to predict the ultimate cost of compliance with these requirements or their effect on its operations.

### **6.12 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 will potentially make completing financings for the Company difficult in the foreseeable future.

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## **7. Off-balance sheet transactions**

As at June 30, 2016 and August 18, 2016, the Company did not have any off-balance sheet arrangements.

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## **8. Transactions between related parties**

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this section. Details of the transactions between the Company and other related parties are disclosed below.

The Company's related party consists of Pangea Management Corp., a private consulting company owned by a family member of one of the Company's directors. The Company incurred the following fees and expenses in the normal course of operations in connection with its related parties. Expenses have been measured at the exchange amount which is determined in a cost recovery basis.

<b>Three months ended</b>		<b>Nine months ended</b>	
<b>June 30,</b>		<b>June 30,</b>	
<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>\$ 6,000</b>	<b>\$ 12,000</b>	<b>\$ 28,000</b>	<b>\$ 36,000</b>
<b>\$ 6,000</b>	<b>\$ 12,000</b>	<b>\$ 28,000</b>	<b>\$ 36,000</b>

Amounts due to the related party are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at June 30, 2016, included \$Nil (September 30, 2015 – \$Nil) which was due to the related party.

## Compensation of key management personnel

The remuneration of members of key management personnel during the three and nine months ended June 30, 2016 and 2015 was as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
Management fees				
Officers	\$ 38,638	\$ 129,466	\$ 252,503	\$ 392,267
Director fees				
Directors	-	6,000	12,000	18,000
Share-based payments (i)				
Directors and officers	175	84,936	23,150	96,125
	\$ 38,813	\$ 220,402	\$ 287,653	\$ 506,392

(i) *Share based payments are the fair value of options granted to key management personnel including the officers and directors of the Company.*

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three and nine months ended June 30, 2016 and 2015. Accounts payable and accrued liabilities at June 30, 2016, include \$Nil of directors fees payable (September 30, 2015 - \$Nil). Accounts payable and accrued liabilities at June 30, 2016, included \$163 due to a private company controlled by a director of the Company (September 30, 2015 - \$Nil). Amounts due to or from related parties are unsecured, non-interest bearing and due on demand.

## 9. Proposed transactions

As at August 18, 2016, the Company's Board of Directors has not approved any proposed asset or business acquisitions or dispositions.

## 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 as it is classified as a financial liability measured at amortized cost.

## 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 consists of cash on deposit in major banks that are considered to be creditworthy. Amounts receivable are comprised primarily of amounts due from GST receivables from the government in Canada. 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 June 30, 2016 and September 30, 2015.

Contractual maturity analysis as at June 30, 2016

	<b>Less than 3 months</b>	<b>3 - 12 months</b>	<b>1 - 5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 74,431	\$ 85,005	\$ -	\$ 159,436
Loans payable	392,023	-	-	392,023
<b>Total</b>	<b>\$ 466,454</b>	<b>\$ 85,005</b>	<b>\$ -</b>	<b>\$ 551,459</b>

Contractual maturity analysis as at September 30, 2015

	<b>Less than 3 months</b>	<b>3 - 12 months</b>	<b>1 - 5 years</b>	<b>Total</b>
Accounts payable and accrued liabilities	\$ 25,708	\$ 159,607	\$ -	\$ 185,315
Loans payable	236,713	-	-	236,713
<b>Total</b>	<b>\$ 262,421</b>	<b>\$ 159,607</b>	<b>\$ -</b>	<b>\$ 422,028</b>

## ***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 exploration expenditures, certain acquisition costs and other operating expenses are denominated in US dollars, Papua New Guinea kina, Polish zloty 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 and Polish zloty. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

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## **11. Adoption of accounting standards and pronouncements under IFRS**

### ***11.1 Application of new and revised IFRSs***

Effective October 1, 2015, there were no 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 after October 1, 2015 or later years.

#### ***Accounting standards issued but not yet effective:***

- (i) Amended standard IFRS 10, Consolidated Financial Statements***  
The amendments to IFRS 10 deal with the sale or contribution of assets between an investor and its associate or joint venture. Effective for annual periods commencing on or after January 1, 2017.
- (ii) Amended standard IAS 28, Investments in Associate and Joint Venture***  
The amendments to IAS 28 deal with the sale or contribution of assets between an investor and its associate or joint venture. Effective for annual periods commencing on or after January 1, 2017.
- (iii) Amended standard IAS 7, Statement of Cash Flows***  
These amendments to IAS 7 "Statement of Cash Flows" were issued to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities. Effective for annual periods commencing on or after January 1, 2017.

- (iv) Amended standard IAS 12, *Income Taxes*  
These amendments relate to the recognition of deferred tax assets for unrealized losses associated with debt instruments measured at fair value. Effective for annual periods commencing on or after January 1, 2017.
- (v) Amended standard IFRS 7, *Financial Instruments: Disclosures*  
The amendments to IFRS 7 outline the disclosures required when initially applying IFRS 9 Financial Instruments. Effective date January 1, 2018.
- (vi) New standard IFRS 9, *Financial Instruments*  
Replacement of IAS 39 *Financial Instruments: Recognition and Measurement*. Effective date January 1, 2018.
- (vii) 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 date January 1, 2018.
- (viii) New standard IFRS 16, *Leases*  
Effective for annual periods commencing on or after January 1, 2019, this 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.

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

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## 12. Critical Accounting Estimates

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 earnings (loss) and/or comprehensive earnings (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:

(a) *Exploration and evaluation expenditures*

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the

expenditure is unlikely, the amount capitalized is written off in the earnings (loss) in the year the new information becomes available.

*(b) Title of mineral property interest*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

*(c) 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.

*(d) Decommissioning obligations*

Decommissioning obligations are recorded based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual decommissioning costs will ultimately depend on future market prices for the decommissioning costs which will reflect the market conditions at the time the decommissioning costs are actually incurred.

*(e) Share based payments*

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

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### 13. 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:

- Depreciation and accretion rates;
- General and administrative expenses;
- Capital expenditures;
- Exploration and development drilling program; 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.

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, future natural gas commodity prices, the ability to market natural gas successfully to customers, the impact of increasing competition, the ability to obtain financing on acceptable terms, and the ability to add production and reserves through development and exploration activities. Although management considers these assumptions to be reasonable based on information currently available, they may prove to be incorrect.

By their very nature, forward-looking statements involve inherent risks and uncertainties (both general and specific) and risks that forward-looking statements will not be achieved. These factors include, but are not limited to: risks associated with oil and gas exploration, financial risks, substantial capital requirements, bank financing, government regulation, environmental risks, prices, markets and marketing, dependence on key personnel, co-existence with mining operations, availability of drilling equipment and access, risks may not be insurable, management of growth, expiration of licenses and leases, reserves estimates, seasonality, competition, conflicts of interest, issuance of debt, title to properties, variations in exchange rates, and hedging. Further information regarding these factors may be found under the heading “Risk Factors” in the Annual Information Form. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive.

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 2016, which are provided for the purpose of forecasting the financial position of the Company at the end of the 2016 financial year. 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.

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#### **14. Subsequent events**

On July 18, 2016, 47,500 options outstanding and exercisable at \$2.40/share expired.

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