



MANAGEMENT DISCUSSION AND ANALYSIS
For the three and six months ended March 31, 2017

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 six months ended March 31, 2017 and 2016.

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 six months ended March 31, 2017, and the audited consolidated financial statements for the year ended September 30, 2016. 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.

The effective date of this MD&A is May 12, 2017.

Contents of the MD&A

1. Highlights for the three months ended March 31, 2017
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 six months ended March 31, 2017 and 2016
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. Proposed transactions and subsequent events
 9. Transactions between related parties
 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
-

1. Highlights for the six months ended March 31, 2017

- During the six months ended March 31, 2017, Esrey recorded net loss attributable to equity shareholders of the Company of \$2,557,136 (six months ended March 31, 2016 – net income \$231,004).
 - During the six month ended March 31, 2017, the Company withdrew from its remaining two joint ventures in Poland, dissolving the associated Delaware LLCs, Joyce Podlasie LLC and Maryani Podlase LLC and wound up two 100% owned subsidiaries, Kaynes Capital S.a.r.l. (“Kaynes”) and Evolution Oil Group LLC.
 - On December 8, 2016, Esrey announced the signing of a non-binding Letter of Intent (the “LOI”) with Enablence Technologies Inc. (“Enablence”) that provides for a combination of the two companies (“the Business Combination”). On April 5, 2017, the Company announced that it will not be proceeding with the proposed business combination with Enablence Technologies Inc. as detailed in a news release dated December 8, 2016.
 - On May 1, 2017, the Company announced that it entered into a non-binding letter of intent (“LOI”) with a private Malta company, PRG PLC, (“PRG”), to acquire Power Zinc Limited (“Power Zinc”), a majority owned subsidiary of PRG, at arm’s length to the Company and its principals, whose principal assets include approximately 130,000 tonnes of zinc tailings located in Kosovo. The LOI also provides that the Company loan US \$500,000 to Power Zinc. This loan is guaranteed by PRG. As a result of this announcement, the Company requested a halt of the trading of its shares on the TSX Venture Exchange pending the release of further information.
-

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. 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 Petroleum Prospecting License ("PPL") 486 and Petroleum Retention License ("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 to the first exploration well until the earlier of the spud of the second exploration well and the 180th 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 re-transferred 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 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 are

required to be acknowledged by the Minister. As of the date of this report, this acknowledgement has not been received.

Licenses

As at March 31, 2017 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 at the date of this report the Company has not received a formal response from the 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 at a cost of no less than US\$30 million (including cost to all parties – "gross");
- 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 at a gross cost of no less than US\$30 million; and
- During years 5 and 6: analysis of data from the previous four years and the drilling of a third exploration well at a gross cost of no less than US\$25 million.

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 May 12, 2017, approval for the variance has not been received. Management believes that the variance will be approved by the Minister. If the variance application was unsuccessful, the DPE may cancel the license which potentially may result in the carrying amount of \$1,059,316 related to PPL 486 being written off.

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 re-transferred the other 40% participating interest in the licenses back to the Company's subsidiary Telemu No. 18 Limited ("Telemu"). Therefore as at March 31, 2017, 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 May 12,

2017 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. Effective June 2014, the Company was granted a three year extension for PRL 13. This extension carried with it a commitment to acquire 10km of seismic in each of the first two years of the extension carrying a value of US\$2.8 million. Prior to the granting of the extension, the Company acquired approximately 20km of seismic on PRL 13. All work commitments have been fulfilled. The extension also carried with it a commitment to acquire further seismic or drill a well by the end of the third year with a minimum gross expenditure of US\$31 million that has not been met and must be completed by June 2017.

Due to Heritage not fulfilling its final commitment under the farm-in agreement, on September 22, 2015, Heritage re-transferred the other 40% participating interest in the licenses back to the Company's subsidiary, LNG Energy (PNG) Limited ("LNG PNG"). Therefore as at December 31, 2016, the Company has a 60% working interest in PRL 13.

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, which potentially may result in the carrying amount of \$1,866,397 related to PRL 13 being written off.

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.

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

* Working interest as at March 31, 2017

** 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

In September 2011, the Company entered into a farm-in transaction with a wholly owned subsidiary of TransAtlantic Petroleum Ltd. ("TransAtlantic"), to earn a 50% interest in a future production concession (the "Etropole Concession") in Bulgaria. An application for the Etropole Concession was denied in July 2014 and appealed by TransAtlantic and the Company. On June 15, 2016, the relevant court reaffirmed the decision of the Ministry of Energy to deny the concession and the matter stands closed. It is the Company's position that no further action is possible and that the Etropole Concession will not be granted.

2.3 Poland (Discontinued Operations)

Ilawa and Wegrow concessions

The Poland exploration and evaluation asset balance consisted of capitalized costs incurred by the Company related to its interest in concessions in Poland that were held through its interest in an associate and two joint ventures. The Company withdrew from its interest in its associate Saponis Investments Sp.z.o.o on March 31, 2015 and withdrew from its remaining two joint ventures in Poland, dissolving the associated Delaware LLCs (Joyce Podlaise LLC and Maryani Podlaise LLC) during the six months ended March 31, 2017. These actions resulted in the Poland exploration and evaluation assets remaining valued at \$Nil.

During the six months ended March 31, 2017, the Company also wound up its 100% owned subsidiary, Kaynes thereby fully withdrawing from Poland. The following table presents summarized financial information related to the discontinued operations of the Company's assets in Poland:

Statement of comprehensive loss:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Foreign currency gain (loss)	(217)	-	(2,305,437)	-
Income tax expense	16	-	(3,747)	-
Income (loss) from discontinued operations	\$ (201)	\$ -	\$ (2,309,184)	\$ -

2.4 United States

During the six months ended March 31, 2017, the Company wound up its 100% owned Delaware subsidiary, Evolution Oil Group LLC.

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 six months ended March 31, 2017 and 2016.

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

	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015 (i)	Sep 30, 2015 (i)	Jun 30, 2015
Income (loss) from continued operations	(338)	85	(1,297)	(323)	(1,023)	1,216	(126)	1,453
Basic and diluted income (loss) per share	(0.01)	0.01	(0.03)	(0.01)	(0.02)	0.03	-	0.04
Total income (loss)	(338)	(2,224)	(1,297)	(323)	(1,022)	1,216	2,516	1,451
Basic and diluted income (loss) per share	-	(0.06)	(0.03)	(0.01)	(0.02)	0.03	0.07	0.04

(i) Figures for these quarters have been restated for the misstatements discussed below under “Disclosure Corrections”.

Disclosure Corrections

Year ended September 30, 2016

During the preparation of the consolidated financial statements for the year ended September 30, 2016, Esrey determined that the current income tax recoveries being recognized by the entity as cash that was collected should have been recognized on an accrual basis in the period in which the Company was entitled to the recovery.

The effect of the restatement on the consolidated statements of financial position as at December 31, 2015, September 30, 2015 and October 1, 2014 is as follows:

	December 31, 2015		
	As reported	Adjustment	Restated
Accumulated other comprehensive income	7,484,282	317,593	7,801,875
Deficit	(119,719,426)	884,027	(118,835,399)

	September 30, 2015			October 1, 2014		
	As reported	Adjustment	Restated	As reported	Adjustment	Restated
Income tax receivable	\$ -	\$ 1,201,620	\$ 1,201,620	\$ -	\$ 1,720,520	\$ 1,720,520
Accumulated other comprehensive income	7,641,666	317,593	7,959,259	7,451,804	57,885	7,509,689
Deficit	(120,961,284)	884,027	(120,077,257)	(120,504,715)	1,662,635	(118,842,080)

The effect of the restatement on the consolidated statement of comprehensive loss for the year ended September 30, 2015 is as follows:

	As reported	Adjustment	Restated
Income tax recovery	\$ 1,881,331	\$ (778,608)	\$ 1,102,723
Net loss	(665,259)	(778,608)	(1,443,867)
Net loss to equity shareholders of the Company	(456,569)	(778,608)	(1,235,177)
Foreign currency translation gain for equity shareholders of the Company	189,862	259,708	449,570
Net income (loss) per share from continuing operations - basic and diluted	0.01	(0.02)	(0.01)

3.1 Results of operations for the three and six months ended March 31, 2017 and 2016

The table below sets forth selected results of operations for the Company for the three and six months ended March 31, 2017 and 2016.

Table 3

	Three months ended		Six months ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Expenses				
Depreciation	\$ 2,461	\$ 2,917	\$ 4,923	\$ 6,185
General and administrative expenses	76,090	109,246	156,797	190,107
Professional fees	174,357	233,143	310,318	497,292
Share-based payments	-	17,034	-	34,464
Travel and business development	19,051	3,073	19,051	3,903
	(271,959)	(365,413)	(491,089)	(731,951)
Other income (expense)				
Interest income	614	901	1,764	1,694
Other income	4,533	2,909	7,829	6,550
Loss from disposal of equipment	-	(1,974)	-	(1,974)
Loss from investment in joint ventures	(2,219)	1,304	(2,655)	(67,896)
Foreign exchange gain (loss)	(68,643)	(673,930)	231,411	(289,482)
Income (loss) for the period before tax	(337,674)	(1,036,203)	(252,740)	(1,083,059)
Income tax recovery	-	13,673	-	1,276,823
Income (loss) from continuing operations	(337,674)	(1,022,530)	(252,740)	193,764
Loss from discontinued operations after tax	(201)	-	(2,309,184)	-
Net income (loss) for the period	\$ (337,875)	\$ (1,022,530)	\$ (2,561,924)	\$ 193,764
Attributable to:				
Non-controlling interest	(5,895)	(11,676)	(4,788)	(37,240)
Equity shareholders of the Company	(331,980)	(1,010,854)	(2,557,136)	231,004
	\$ (337,875)	\$ (1,022,530)	\$ (2,561,924)	\$ 193,764
Basic and diluted income (loss) per share				
From continuing operations	\$ (0.01)	\$ (0.03)	\$ (0.01)	\$ 0.01
From discontinued operations	\$ (0.00)	\$ -	\$ (0.06)	\$ -
Condensed consolidated statements of financial position				
	March 31,	September 30,		
	2017	2016		
Total assets	\$ 9,747,459	\$ 10,249,212		
Total liabilities	\$ 533,872	\$ 622,104		

Net income (loss) for the period

Six months ended March 31, 2017 and March 31, 2016

For the six months ended March 31, 2017 (“Q2 2017”), the Company reported net loss attributable to equity shareholders of the Company of \$2,557,136 compared to a net income of \$231,004 for the six months ended March 31, 2016 (“Q2-2016”). The Company’s net loss increased by \$2,788,140 between Q2-2017 and Q2-2016 due to the following significant increases in expenses or decreases in revenue:

- An increase in loss from discontinued operations after income tax by 100% or \$2,309,184 in Q2-2017 due to the foreign exchange realized from the wind-up of the Company’s subsidiary (Kaynes Capital S.a.r.l.) in Poland; and
- A decrease in income tax recovery by 100% or \$1,276,823. The Q2-2016 income tax recovery related to operations in the United States.

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

- A decrease in general and administrative fees by 18% or \$33,310 in Q2-2017 due to a decrease in insurance premiums and accounting fees for subsidiaries.
- A decrease in professional fees by 38% or \$186,974 due to a decrease in consulting fees and a reversal of an over-accrual of fiscal 2016 audit fees; these decreases were partly offset by an increase in legal fees related to the due diligence performed on a proposed transaction;
- A decrease in share-based payments by 100% or \$34,464 due to no granting or vesting of stock options during Q2-2017;
- A decrease in loss from investment in joint ventures by 96% or \$65,241 due to insignificant activity in the joint venture during Q2-2017; and
- An increase in foreign exchange gain by 180% or \$520,893 due to fluctuations in exchange rates.

Three months ended March 31, 2017 and March 31, 2016

For the three months ended March 31, 2017, the Company reported net loss attributable to equity shareholders of the Company of \$331,980 compared to a net loss of \$1,010,854 for the three months ended March 31, 2016. The Company’s net loss decreased by \$678,874 between the three months ended March 31, 2017 and 2016 due to the following significant decreases in expenses or increases in revenue:

- A decrease in general and administrative fees by 30% or \$33,156;
- A decrease in professional fees by 25% or \$58,786;
- A decrease in share-based payments by 100% or \$17,034; and
- A decrease in foreign exchange gain by 90% or \$605,287.

The above differences were due to similar reasons as discussed in the six month analysis.

4. Selected annual information

	Years ended September 30,		
	2016	Restated 2015	2014
Total revenues	\$ -	\$ -	\$ -
Loss from continuing operations attributable to equity shareholders of the Company	\$ (1,366,151)	\$ (512,779)	\$ (3,592,921)
Basic and diluted loss per share	(0.03)	(0.01)	(0.11)
Net loss attributable to equity shareholders of the Company	\$ (1,366,151)	\$ (1,235,177)	\$ (7,753,888)
Basic and diluted loss per share	(0.03)	(0.03)	(0.23)
Total assets	\$ 10,249,212	\$ 11,690,725	16,750,696
Non-current financial liabilities	\$ -	\$ -	\$ -

5. Liquidity, going concern and capital resources

5.1 Liquidity and going concern

As at March 31, 2017, the Company had cash and cash equivalents of \$6,381,777 (September 30, 2016 - \$6,928,818) and working capital of \$6,147,271 (September 30, 2016 - \$6,563,520). Cash and cash equivalents decreased by \$547,041 during Q2 2017.

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 six months ended March 31, 2017 and 2016 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 three and six months ended March 31, 2017 and 2016.

5.2 Impairment

The Company recorded no write-down of exploration and evaluation assets in Q2-2017.

As at March 31, 2017, the Company's Bulgarian, Polish and United States exploration and evaluation 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 three and six months ended March 31, 2017, there were no changes to the Company's outstanding share capital. As at May 12, 2017 and March 31, 2017, the Company had 39,762,771 common shares outstanding.

As at May 12, 2017 and March 31, 2017, the Company had the following options outstanding and exercisable:

Options outstanding	Options exercisable	Exercise price	Expiry date
859,500	859,500	\$0.12	January 8, 2019
2,057,000	2,057,000	\$0.095	April 2, 2020
2,916,500	2,916,500		

During the three and six months ended March 31, 2017, no new options were issued and 2,000 options were forfeited. The weighted average remaining life of exercisable options is 2.65 years (September 30, 2016 – 3.15 years) and the weighted average exercise price of options exercisable at March 31, 2017 is \$0.10 (September 30, 2016 - \$0.10).

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.

7. Off-balance sheet transactions

As at March 31, 2017 and May 12, 2017, the Company did not have any off-balance sheet arrangements.

8. Proposed transactions and subsequent events

Subsequent to quarter end, the Company entered into a non-binding letter of intent with a private Malta company, PRG PLC, to acquire Power Zinc Limited, a majority owned subsidiary of PRG, at arm's length to the Company and its principals, whose principle assets include approximately 130,000 tonnes of zinc tailings located in Kosovo.

Under the terms of the LOI Esrey is to acquire 100% of the shares of Power Zinc from PRG and the minority shareholders of Power Zinc in exchange for 39,762,771 shares of Esrey, which is the amount equal to 100% of the current issued and outstanding shares of Esrey.

The LOI also provides that Esrey loan US \$500,000 to Power Zinc, which was done subsequent to year end. The loan is guaranteed by PRG.

Closing remains subject to Esrey and PRG completing a satisfactory due diligence review of the other and entering into a definitive agreement by May 12, 2017. Closing is also subject to the acceptance of the acquisition by the TSX Venture Exchange.

As a result of the signing of the LOI, the Company requested a halt in the trading of its shares pending the release for further news.

9. 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.

One of the Company's related parties is 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 this related party. Expenses have been measured at the exchange amount which is determined on a cost recovery basis.

Three months ended, March 31,		Six months ended, March 31,	
2017	2016	2017	2016
\$ 6,000	\$ 10,000	\$ 12,000	\$ 22,000
\$ 6,000	\$ 10,000	\$ 12,000	\$ 22,000

Accounts payable and accrued liabilities at March 31, 2017, included \$Nil (September 30, 2016 – \$Nil) which was due to the related party.

The Company's other related party, owned 50% by the Company, had a loan payable due to EERL Holdings Ltd. of \$231,893 (September 30, 2016 - \$231,893). The loan is non-interest bearing and has no fixed date of repayment.

Compensation of key management personnel

The remuneration of members of key management personnel during the three and six months ended March 31, 2017 and 2016 was as follows:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
Management fees				
Officers	\$ 39,703	\$ 96,067	\$ 79,609	\$ 213,865
Director fees				
Directors	6,000	6,000	24,000	12,000
Share-based payments (i)				
Directors and officers	-	11,414	-	22,975
	\$ 45,703	\$ 113,481	\$ 103,609	\$ 248,840

(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 six months ended March 31, 2017 and 2016. Accounts payable and accrued liabilities at March 31, 2017, include \$Nil of directors fees payable (September 30, 2016 - \$Nil). Accounts payable and accrued liabilities at March 31, 2017, included \$Nil due to a private company controlled by a director of the Company (September 30, 2016 - \$997). Amounts due to or from related parties are unsecured, non-interest bearing and due on demand.

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 March 31, 2017 and September 30, 2016.

Contractual maturity analysis as at March 31, 2017

	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 29,595	\$ -	\$ 29,595
Loans payable	269,052	-	269,052
Total	\$ 298,647	\$ -	\$ 298,647

Contractual maturity analysis as at September 30, 2016

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

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.

11. Adoption of accounting standards and pronouncements under IFRS

11.1 Application of new and revised IFRSs

Effective October 1, 2016, 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, 2016 or later years.

Accounting standards issued but not yet effective:

- (i) Amended standard IFRS 2, Share-based Payments

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

(ii) Amended standard IFRS 7, Financial Instruments: Disclosures

The amendments to IFRS 7 outline the disclosures required when initially applying IFRS 9 Financial Instruments. Effective for annual periods on or after January 1, 2018.

(iii) New standard IFRS 9, Financial Instruments

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

(iv) New standard IFRS 15, Revenue from Contracts with Customers

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

(v) New standard IFRS 16, Leases

IFRS 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.

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.

Critical Accounting Estimates

(a) 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.

Critical Accounting Judgements

(b) 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.

(c) 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.

(d) 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.

(e) 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.

(f) 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.

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.