Condensed Interim Consolidated Financial Statements

LGC Capital Limited

(formerly Knowlton Capital Inc.)

For the three and six-month periods ended March 31, 2017 and 2016

(Unaudited)

INDEX

NOTICE TO READER

Management has compiled the unaudited condensed interim consolidated financial statements of LGC Capital Ltd. as at March 31, 2017 and for the three and six-month periods ended March 31, 2017 and 2016. These condensed interim consolidated financial statements have not been audited or reviewed by the Corporation's independent auditors.

LGC Capital Limited

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

	March 31, 2017 $	September 30, 2016 $
ASSETS		
Current assets		
Cash	**193,054**	486,137
Available for sale investments *[note 6]*	**5,334,666**	6,773,904
Other receivables	**52,292**	104,345
Loan to associates and joint ventures	**713,818**	478,980
	6,293,830	7,843,366
Non-current assets		
Investments in associates	**71,801**	68,119
Investments in joint ventures	**96,510**	143,055
Total assets	**6,462,141**	8,054,540
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities *[note 9]*	**728,763**	503,473
Loans Payable *[note 7]*	**330,460**	—
Total current liabilities	**1,059,223**	503,473
Equity		
Share capital *[note 8]*	**11,213,399**	11,213,399
Warrants *[note 8]*	**91,579**	91,579
Contributed surplus *[note 8]*	**1,354,880**	1,049,052
Accumlulated other comprehensive income	**1,825,017**	3,156,245
Deficit	**(9,081,957)**	(7,959,208)
Total equity	**5,402,918**	7,551,067
Total equity and liabilities	**6,462,141**	**8,054,540**

See accompanying notes

LGC Capital Limited

INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

	Three-month periods ended March 31, 2017	Three-month periods ended March 31, 2016	Six-month periods ended March 31, 2017	Six-month periods ended March 31, 2016
	$	$	$	$
REVENUES	**—**	—	—	—
EXPENSES				
Adminstrative expenses *[note 4]*	**693,040**	750,059	**1,348,884**	3,380,744
Realized gain on available for sale investments [note 6]	**(123,406)**	—	**(277,788)**	—
	569,634	**750,059**	**1,071,096**	**3,380,744**
Operating loss	**(569,634)**	**(750,059)**	**(1,071,096)**	**(3,380,744)**
Interest income	**—**	—	**(64)**	—
Share of profits of associates	**(4,995)**	(16,548)	**(5,275)**	(18,812)
Share of losses of joint ventures	**26,093**	—	**42,540**	—
Foreign exchange (gain) / loss	**16,402**	20,607	**14,452**	22,356
	37,500	4,059	**51,653**	3,544
Net loss for the period	**(607,134)**	(754,119)	**(1,122,749)**	(3,384,288)
OTHER COMPREHENSIVE PROFIT (LOSS)				
Other comprehensive profit (loss) items that may subsequently be reclassified to profit or loss				
Increase (decrease) in value of available for sale investments, net of taxes *[note 6]*	**846,690**	484,136	**(843,463)**	484,136
Realized (loss) on available for sale investments reclassified to profit or loss *[note 6]*	**(89,307)**	—	**(294,659)**	—
Foreign exchange gain (loss) on translation of foreign subsidiaries, net of taxes	**39,833**	(873,895)	**(193,106)**	(927,137)
Other comprehensive profit (loss)	**797,216**	(389,760)	**(1,331,228)**	(443,001)
Net profit (loss) and comprehensive profit (loss)	**190,082**	(1,143,879)	**(2,453,977)**	(3,827,289)
Net loss per share				
Basic and fully diluted	**(0.00)**	(0.00)	**(0.00)**	(0.02)
Weighted average number of outstanding shares				
Basic and fully diluted	**234,045,310**	197,600,000	**234,045,310**	197,309,891

See accompanying notes

LGC Capital Limited

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	Share capital		Warrants		Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	#	$	#	$	$	$	$	$
Balance – October 1, 2015	490,000,001	8,399,794	—	—	—	(10,619)	(97,682)	8,291,493
Issuance of Leni Gas Cuba shares *[note 8]*	4,000,000	404,020	—	—	—	—	—	404,020
Share issue costs *[note 8]*	—	(22,391)	—	—	—	—	—	(22,391)
Issuance of Leni Gas Cuba warrants *[notes 4 and 8]*	—	—	4,940,000	91,579	—	—	—	91,579
Decrease in value of available for sale investments, net of taxes *[note 6]*	—	—	—	—	—	484,136	—	484,136
Stock-based compensation *[notes 4 and 8]*	—	—	—	—	1,013,924	—	—	1,013,924
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	—	—	—	—	—	(927,137)	—	(927,137)
Net loss for the period	—	—	—	—	—	—	(3,384,288)	(3,384,288)
Balance – March 31, 2016	494,000,001	8,781,423	4,940,000	91,579	1,013,924	(453,620)	(3,481,970)	5,951,336
Balance – October 1, 2016	**234,045,310**	**11,213,399**	**1,976,000**	**91,579**	**1,049,052**	**3,156,245**	**(7,959,208)**	**7,551,067**
Decrease in value of available for sale investments, net of taxes *[note 6]*	—	—	—	—	—	**(843,463)**	—	**(843,463)**
Realized loss on available for sale investments reclassified to profit or loss [note 6]	—	—	—	—	—	**(294,659)**	—	**(294,659)**
Stock-based compensation *[notes 4 and 8]*	—	—	—	—	**305,828**	—	—	**305,828**
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	—	—	—	—	—	**(193,106)**	—	**(193,106)**
Net loss for the period	—	—	—	—	—	—	**(1,122,749)**	**(1,122,749)**
Balance – March 31, 2017	**234,045,310**	**11,213,399**	**1,976,000**	**91,579**	**1,354,880**	**1,825,017**	**(9,081,957)**	**5,402,918**

See accompanying notes

LGC Capital Limited

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three-month periods ended March 31,		Six-month periods ended March 31,	
	2017	**2016**	**2017**	**2016**
	$	$	$	$
OPERATING ACTIVITIES				
Net loss	**(607,134)**	(754,119)	**(1,122,749)**	(3,384,288)
Items not impacting cash:				
Realised gain on sale of available for sale investments *[note 6]*	**(123,406)**	—	**(277,788)**	—
Share of profit of associates	**(4,995)**	(16,548)	**(5,275)**	(18,812)
Share of losses of joint ventures	**26,093**	—	**42,540**	—
Stock-based compensation *[notes 4 and 8(d)]*	**260,494**	—	**305,828**	1,105,504
	(448,948)	(770,667)	**(1,057,444)**	(2,297,596)
Net change in non-cash working capital items	**(97,223)**	(177,089)	**28,660**	(379,246)
Net cash flows from operating activities	**(546,171)**	(947,756)	**(1,028,784)**	(2,676,842)
INVESTING ACTIVITIES				
Acquisition of available for sale investments *[note 6]*	—	(1,360,280)	**(18,552)**	(1,360,280)
Acquisition of investment in associates *[note 8]*	—	(73,614)	—	(73,614)
Disposal of available for sale investments *[note 6]*	**199,970**	—	**431,734**	—
Net cash flows from investing activities	**199,970**	**(1,433,894)**	**413,182**	**(1,433,894)**
FINANCING ACTIVITIES				
Proceeds from issuance of shares *[note 8]*	—	—	—	404,020
Share issue costs *[note 8]*	—	—	—	(22,391)
Proceeds from issuance of new loans *[note 7]*	**330,460**	—	**330,460**	—
Net cash flows from financing activities	**330,460**	—	**330,460**	381,629
Net decrease in cash	**(15,741)**	(2,381,650)	**(285,142)**	(3,729,107)
Net foreign exchange differences	**2,146**	(438,287)	**(7,941)**	(505,368)
Cash, beginning of period	**206,649**	5,158,287	**486,137**	6,572,825
Cash, end of period	**193,054**	2,338,350	**193,054**	2,338,350

See accompanying notes

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2017

1. NATURE OF OPERATIONS AND COMPARATIVE INFORMATION

LGC Capital Limited (formerly Knowlton Capital Inc.) was incorporated under the Canada Business Corporations Act on July 9, 2004. LGC Capital Limited is a publicly-listed company and its shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "QBA" ("KWC.H" prior to July 12, 2016). The registered office of LGC Capital Limited is located at 800 Place Victoria, Suite 3700, Montreal, Québec, Canada.

Leni Gas Cuba Limited was incorporated on March 3, 2015 as Leni Gas & Oil Limited under the British Virgin Islands ("BVI") Business Companies Act 2004 with registered number 1864325. On April 23, 2015, Leni Gas & Oil Limited changed its name to Leni Gas Cuba Limited ("Leni Gas Cuba").

On July 12, 2016, Leni Gas Cuba, an unrelated entity, completed a reverse asset acquisition and takeover ("RTO") of Knowlton Capital Inc. ("Knowlton"). The transaction occurred, pursuant to a Scheme of Arrangement (the "Scheme of Arrangement"), under section 179A of the BVI Business Companies Act 2004.

On completion of the RTO, Knowlton changed its name to LGC Capital Limited ("LGC Capital"). Prior to the RTO, Leni Gas Cuba's shares were traded on the ISDX Growth market, in London, until July 12, 2016.

On October 21, 2016, LGC Capital subscribed for 100% of the issued share capital of LGC EU OU ("LGC Estonia"), a company incorporated in Estonia. It is proposed that LGC Estonia will provide treasury services to the Group and its associates and joint ventures.

LGC Capital, Leni Gas Cuba, Leni Gas Holdings Spain, SLU ("Leni Gas Spain"), and LGC Estonia, are collectively referred to as the "Company" in these condensed interim consolidated financial statements.

The Company is an investment holding company focused on providing a diverse range of products and services primarily in Cuba or with connections in Cuba together with such other jurisdictions in sectors such as tourism, accommodation, infrastructure, transport, commercial and residential property, technology, communications, manufacturing, retail, services, leisure, agricultural and natural resources.

As a consequence of the RTO and pursuant to securities legislation, the year end of LGC Capital was changed to September 30, the year end of Leni Gas Cuba.

1. NATURE OF OPERATIONS AND COMPARATIVE INFORMATION [Cont'd]

As a result of the RTO, for accounting purposes, Leni Gas Cuba, the legal acquiree, was the accounting acquirer of LGC Capital and all comparative information presented in these condensed interim consolidated financial statements relates to the financial position, operations and results of Leni Gas Cuba since its incorporation. Furthermore, the results of operations of LGC Capital are included in these condensed interim consolidated financial statements as of July 12, 2016.

The comparative information for the six months ended March 31, 2016, to the extent it pertains to the results of Leni Gas Cuba, have been translated from Pound Sterling ("GBP") to Canadian dollars which is the reporting currency of LGC Capital. Revenue and expenses for the three and six-month periods ended March 31, 2016 were translated at the average rate for the period. The difference was recorded in accumulated other comprehensive income.

2. BASIS OF PREPARATION

Statement of Compliance

The condensed interim consolidated financial statements of the Company for the three and six-month periods ended March 31, 2017 have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as were followed in the preparation of the financial statements for the year ended September 30, 2016 except for the new standards and interpretations effective October 1, 2016. These condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended September 30, 2016 which have been prepared in accordance with IFRS.

The Board of Directors approved these condensed interim consolidated financial statements, effective May 30, 2017.

Basis of consolidation

The condensed interim consolidated financial statements include the financial statements of LGC Capital and its subsidiaries. All intra-group balances, income and expenses and unrealized gains and losses, resulting from intra-group transactions are eliminated in full on consolidation.

The condensed interim consolidated financial statements of the subsidiaries are prepared using the same reporting period and same accounting policies as LGC Capital.

2. BASIS OF PREPARATION [Cont'd]

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of LGC Capital. The functional currencies of Leni Gas Cuba and LGC Estonia are GBP and Euro respectively.

Use of estimates and judgments

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the date of the consolidated financial statements. In preparing these condensed interim consolidated financial statements, the same significant judgments, estimates and assumptions were made as those in the Company's consolidated financial statements for the year ended September 30, 2016

3. RECENT ACCOUNTING PRONOUNCEMENTS

New standards, interpretations and amendments adopted by the Company

The nature and the impact of the new standard, interpretation and amendment adopted by the Company on October 1, 2016 is described below:

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the Management Discussion and Analysis). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment must be applied retrospectively and was effective for annual periods beginning on or after January 1, 2016. The adoption of this amendment did not have an impact on the Company's interim condensed consolidated financial statements.

4. EXPENSES BY NATURE

The following is a breakdown of the nature of expenses included in administration expenses and listing and compliance expenses for the three and six-month periods ended March 31:

	Three-month periods ended March 31		Six-month periods ended March 31	
	2017	**2016**	**2017**	**2016**
Administration expenses:				
Salaries and other employee benefits	**26,820**	7,375	**45,899**	7,375
Directors' fees and consultancy	**179,795**	195,631	**326,162**	302,647
Legal fees	**38,727**	76,634	**76,865**	175,636
Regulatory expenses	**38,658**	19,019	**68,444**	731,442
Consultancy fees	**84,147**	313,652	**308,411**	851,187
Travel and business development	**2,187**	116,055	**31,050**	171,228
Investor / public relations	**20,295**	5,042	**62,704**	7,875
Office expenses	**23,257**	4,425	**75,717**	7,359
Professional fees	**15,270**	2,468	**31,221**	2,468
Stock-based compensation - warrants (note 8(d))	**—**	—	—	91,579
Stock-based compensation – stock options (note 8(d))	**260,494**	—	**305,828**	1,013,924
Other administration	**3,390**	9,758	**16,583**	18,024
Total	**693,040**	750,059	**1,348,884**	3,380,744

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2017

5. INCOME TAXES

A reconciliation of income tax charge applicable to accounting loss before income tax at the weighted average statutory income tax rate to income tax charge at the Company's effective income tax rate for the three and six-month periods ended March 31 is as follows:

	Three-month periods ended March 31		Six-month periods ended March 31	
	2017	2016	**2017**	2016
	$	$	**$**	$
Loss before income tax	**(606,854)**	(754,119)	**(1,122,749)**	(3,384,288)
Income tax recovery at the combined Federal and Provincial tax rate 26.90% [2016 – 26.90%]	(163,242)	(202,858)	(302,019)	(910,373)
Effect of changes in tax rates on temporary items	2,238	—	3,446	—
Effect of foreign tax rate differences	12,778	202,858	70,329	910,373
Changes in valuation allowance	148,226	—	228,244	—
Tax recovery at effective income tax rate	—	—	—	—

The deferred tax asset and liability of the Company consist of the following:

	March 31, 2017	**September 30, 2016**
	$	$
Future income tax assets		
Non-capital loss carry-forwards	**455.749**	226,772
Share issue costs	**1,946**	2,677
Other	**7,185**	7,187
Net future income tax assets	**464,880**	236,636
Unrecognized future income tax assets	**(464,880)**	(236,636)
Net future income tax	**—**	—

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2017

5. INCOME TAXES [Cont'd}

Tax loss carry-forwards

At December 31, 2016, LGC Capital had non-capital loss carry-forwards in the amount of $1,159,000 which are available to reduce future years' taxable income. These non-capital loss carry-forwards expire as follows:

	$
2033	7,000
2034	203,000
2035	152,000
2036	494,000
2037	864,000
	1,720,000

6. AVAILABLE FOR SALE INVESTMENTS

A breakdown of available for sale investments as at March 31, 2017 and September 30, 2016 and the respective changes during the six month period ended and the year then ended, are summarized as follows:

	Six month period ended March 31, 2017	**Year ended September 30, 2016**
	$	$
Balance, beginning of period	**6,773,904**	**1,599,774**
Additions	**18,552**	**1,410,493**
Disposals	**(448,605)**	—
(Decrease) / increase in value	**(843,463)**	**4,586,366**
Foreign currency loss on translation	**(165,722)**	**(822,729)**
Balance, end of period	**5,334,666**	**6,773,904**

6. AVAILABLE FOR SALE INVESTMENTS [Cont'd]

a) Petro Australis Limited

In July / August 2015, the Company acquired a total of 10,961,667 ordinary shares at an average of A$0.15 per share in Petro Australis Limited ("Petro Australis"), an unlisted Australian public company, at a total cost of A$1,644,250 ($1,599,328). The Company's shareholding represented, on acquisition, a 15.0% interest in Petro Australis. In August 2016, Petro Australis completed an equity raising at A$0.20 per share. Based on the August 2016 equity raising price, the Company estimates that, at September 30, 2016 and March 31, 2017, the fair value of its shares in Petro Australis, was A$0.20, resulting in an increase in value of the Company's investment by A$548,083 ($944,816) and A$nil ($nil) respectively. As at March 31, 2017 the Company's interest in Petro Australis was 14.0% [September 30, 2016 – 14.0%].

b) Melbana Energy Limited

In March 2016 the Company acquired 140,716,573 new ordinary shares at A$0.01 per share in Melbana Energy Limited ("Melbana") (formerly MEO Australia Limited), an Australian incorporated public company listed on the Australian Stock Exchange (ticker "MAY"), for a total cash consideration of A$1,407,166 ($1,360,280). The Company's shareholding represented, on acquisition, a 15.8% interest Melbana. As a result of share issues by Melbana in August and September 2016, the Company's interest was diluted to 14.76% as at September 30, 2016.

During the three and six-month periods ended March 31, 2017, the Company divested 9,150,000 and 18,196,943 shares in Melbana respectively, at average prices of A$0.022 and A$0.024 respectively for total proceeds of A$199,289 (C$200,415) and A$430.189 ($431,734) respectively which resulted in a reduction of the Company's interest in Melbana from 14.76% on September 30, 2016 to 12.85% at March 31, 2017. During the three and six-month periods ended March 31, 2017, the Company recognized a gain on disposal of shares of Melbana of A$107,789 (C$123,406) and A$248,220 (C$277,788) respectively, recorded in profit and loss, and also losses on disposal of shares of Melbana of A$82,350 (C$89,307) and A$281,383 (C$294,659) respectively, recorded in other comprehensive loss. The closing share price of Melbana as at March 31, 2017 was A$0.025 and during the three and six-month periods then ended the movement in value of the Company's investment amounted to a gain of A$735,118 (C$846,690) and a loss of A$976,587 (C$843,463) respectively.

6. AVAILABLE FOR SALE INVESTMENTS [Cont'd]

c) The Cuba Mountain Coffee Company Limited

In June 2016 the Company acquired a total of 273 ordinary shares at £100 per share in The Cuba Mountain Coffee Company Limited ("Cuba Mountain") for a total cash consideration of £27,300 ($50,213). In December 2016 the Company participated in a rights issue by the Cuba Mountain Coffee Company Limited and acquired a further 112 ordinary shares at £100 per share for an investment of £11,200 ($18,552). Based on the December 2016 rights issue price, the Company estimates that, at March 31, 2017, the fair value of its shares in Cuba Mountain was £100, resulting in an increase in value of the Company's investment by £nil ($nil). As at March 31, 2017 the Company's interest in The Cuba Mountain was 10.14%.

7. LOANS

During the period, the Company obtained a short-term unsecured loan in the amount of AUD325,000 ($330,460) for working capital purposes. The loan bears interest at up to 10% per annum and matures on June 20, 2017.

8. SHARE CAPITAL

Authorized

Common

An unlimited number of common shares, voting, participating, without par value.

[a] Common shares

Issuances during the three and six-month periods ended March 31, 2017

[i] There were no issuances of common shares during the three and six-months ended March 31, 2017.

Issuances during the three and six-month periods ended March 31, 2016

[ii] On November 2, 2015, Leni Gas Cuba completed a private placement, issuing 4,000,000 common shares at a price of £0.05 per share for gross proceeds of £200,000 ($404,020). In connection with this private placement, the Corporation incurred professional fees and expenses of £11,500 ($22,392).

8. SHARE CAPITAL [Cont'd]

[b] Stock options

The outstanding options as at March 31, 2017 and September 30, 2016 (adjusted for the consolidation ratio) and the respective changes during the six-month period and the year then ended, are summarized as follows:

	Six-months ended March 31, 2017		**Year ended September 30, 2016**	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Outstanding, beginning of period	**40,982,679**	**0.34**	—	—
Grants by Leni Gas Cuba during the period / year	—	—	95,000,000	0.16
Acquisition of LGC Capital	—	—	1,982,679	0.07
Cancellation of Leni Gas Cuba options upon RTO transaction	—	—	(95,000,000)	(0.16)
Replacement of Leni Gas Cuba options by LGC Capital upon RTO transaction	—	—	38,000,000	0.36
Grants by LGC Capital during the period / year	**16,000,000**	**0.08**	1,000,000	0.14
Cancellations during the period / year	**(10,000,000)**	**(0.23)**	—	—
Outstanding, end of period	**46,982,679**	**0.28**	40,982,679	0.34

No options were exercised during the six-month period ended March 31, 2017 [Year ended September 30, 2016 – nil].

8. SHARE CAPITAL [Cont'd]

The following options are outstanding and exercisable as at March 31, 2017.

Options outstanding					
Range of exercise price $	**Number outstanding** #	**Weighted average remaining contractual life** (in years)	**Weighted average exercise price** $	**Number exercisable** #	**Weighted average exercise price** $
0.00 to 0.149	20,982,679	3.91	0.08	12,982,679	0.09
0.15 to 0.299	14,000,000	3.23	0.22	14,000,000	0.22
0.45 to 0.599	4,000,000	1.59	0.46	4,000,000	0.46
0.60 to 0.749	4,000,000	1.59	0.70	4,000,000	0.70
0.90 to 1.049	4,000,000	1.59	0.93	4,000,000	0.93
0.00 to 1.499	**46,982,679**	**3.12**	**0.28**	**38,982,679**	**0.32**

The fair value of stock options granted during the three and six-month periods ended March 31, 2017 and the year ended September 30, 2016 were estimated at their respective grant dates using the Black-Scholes option pricing model, using the following weighted average assumptions:

	Three and six-month periods ended March 31, 2017	**Year ended September 30, 2016**
Risk-free interest rate	**1.12%**	**1.18%**
Expected volatility	**180%**	**83%**
Dividend yield	**Nil**	**Nil**
Expected life [in years]	**4.61**	**4.03**
Share price at grant date	**$0.03**	**$0.089**
Fair value at grant date	**$0.03**	**$0.011**

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2017

8. SHARE CAPITAL [Cont'd]

[c] Warrants

The outstanding warrants as at March 31, 2017 and September 30, 2016 and the respective changes during the six-month period and the year then ended, are summarized as follows:

	Six-months ended March 31, 2017		Year ended September 30, 2016	
	Number of warrants #	Weighted average exercise price $	Number of warrants #	Weighted average exercise price $
Outstanding balance, beginning of period	**1,976,000**	**0.23**	—	—
Grants in Leni Gas Cuba during the period / year	—	—	4,940,000	0.10
Cancellation of Leni Gas Cuba warrants upon RTO transaction	—	—	(4,940,000)	0.10
Replacement of Leni Gas Cuba warrants by LGC Capital upon RTO transaction	—	—	1,976,000	0.23
Outstanding balance, end of period	**1,976,000**	**0.23**	1,976,000	0.23

As at March 31, 2017, the warrants outstanding had a weighted average life of 5.59 years and all warrants were exercisable.

The fair value of warrants granted during the year ended September 30, 2016 was estimated at their respective grant dates using the Black-Scholes pricing model, using the following weighted average assumptions:

	September 30, 2016
Risk-free interest rate	**1.60%**
Expected volatility	**80%**
Dividend yield	**Nil**
Expected life [in years]	**7.00**
Share price at grant date	**$0.035**
Fair value at grant date	**$0.020**

8. SHARE CAPITAL [Cont'd]

[d] Stock-based compensation

For the three and six-month periods ended March 31, 2017, the stock-based compensation expense included in net loss, was $260,494 and $305,828 respectively [2016 – $Nil and $1,105,503] (refer note 4).

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere, the Company entered into the following related party transactions in the normal course of operations.

[a] During the three and six-month periods ended March 31, 2017, the Company purchased travel services from its associate, InCloud9. During the three and six-month periods ended March 31, 2017, the total amount charged to administration expenses in respect of such services amounted to $2,270 and $12,719 [2016 – $49,143 and $66,651].

[b] During the three and six-month periods ended March 31, 2017, the Company made working capital loans to the its 40% owned associate, InCloud9 in the amount of $35,690 and $95,622 respectively [2016 - $42,701 and $83,126].

[c] During the three and six-month periods ended March 31, 2017, the Company made working capital loans to the 50:50 unincorporated joint venture with Groombridge Trading in the amount of $8,325 and $20,748 [2016 – $41,967 and $174,613].

[d] During the three and six-month periods ended March 31, 2017, the Company made working capital loans to the 50:50 unincorporated joint venture with Rushmans Ltd in the amount of $51,576 and $80,587 [2016 – nil and nil].

[e] During the three and six-month periods ended March 31, 2017, the Company incurred fees to a number of management entities of which certain officers or directors of the Company are a related party. For the three-month period ended March 31, 2017, the total amount for such services was $124,555, which was recorded in directors fees [2016 – nil]. For the six-month period ended March 31, 2017, the total amount for such services was $211,159, which was recorded in directors fees [2016 – nil]. As at March 31, 2017, an amount of $186,353 [September 30, 2016 – $14,810] owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.

9. RELATED PARTY TRANSACTIONS [Cont'd]

[f] **Compensation of key management personnel and Board of Directors**

Excluding the amounts reported above, during the three and six-month periods ended March 31, 2017 and 2016, the Company recorded the following compensation for key management personnel and the Board of Directors:

	Three-month period ended March 31		**Six-month period ended March 31**	
	2017	2016	**2017**	2016
	$	$	**$**	$
Directors' fees	**55,241**	195,631	**115,004**	302,647
Management fees	**8,000**	—	**8,000**	—
Stock compensation	**184,253**	—	**184,253**	665,281
Total	**247,494**	195,631	**307,257**	967,928

10. FINANCIAL INSTRUMENTS

General objectives, policies and procedures

The Company's objectives when managing capital are to safeguard its ability to continue its investments in Cuba. As such, the Company relies primarily on the equity markets to fund its activities. In order to carry out planned investment activities and to pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company has not used term debt financing and has not paid any dividends. As well, the Company does not have any externally-imposed capital requirements, either regulatory or contractual, to which it is subject.

The Company's Board of Directors have overall responsibility for the determination of the Company's risk management objectives and operating processes that ensure effective implementation of the policies set out below.

Principles of risk management

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

10. FINANCIAL INSTRUMENTS [Cont'd]

The Company is exposed through its activities to the following risks:

- Credit risk;
- Liquidity risk;
- Market risk.
- Foreign exchange risk;

The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations; the Company's maximum exposure to credit loss is the carrying value of its financial instruments.

The Company is exposed to credit risk from its cash. The Company reviews the banks and financial institutions it deals with to ensure that standards of credit worthiness are maintained.

The Company is also exposed to credit risk from its loans to associates and joint ventures. The Company, through its significant influence over its associates and joint ventures, closely monitors the activities and financial information.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. All of the Corporation's financial liabilities are due within one year. The Corporation manages liquidity risk through the management of its capital structure.

As at March 31, 2017, the Company had a total of $193,054 in cash. Accounts payable and accrued liabilities have contractual maturities of 30 days or less and are subject to normal trade terms, and amounts due to related parties are due on demand.

Market risk analysis

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's primary market exposures are to foreign exchange risk and interest rate risk.

The sensitivity analysis are intended illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on net loss and comprehensive loss where applicable.

10. FINANCIAL INSTRUMENTS [Cont'd]

The following assumptions have been made in calculating the sensitivity analysis:

- The condensed interim consolidated statement of financial position sensitivity relates to foreign currency denominated cash, other receivables, available for sale investments, and accounts payable and accrued liabilities.
- The sensitivity of the relevant net loss is the effect of the assumed changes in foreign currency. This is based on the financial assets and financial liabilities held at March 31, 2017 and September 30, 2016 and constant throughout the year/period.
- The impact on other comprehensive income where applicable.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's foreign exchange risk arises primarily with respect to GBP, Australian dollars and USD.

To the extent that these financial instruments are unhedged, or are not adequately hedged, the value of the Company's financial instruments may fluctuate with exchange rates as well as with price changes in various local markets and currencies. The value of the financial assets may therefore be affected unfavourably by fluctuations in currency rates and exchange control regulations. The Company has not entered into hedging instruments to manage exposure to currency movements at this stage.

The impact of foreign currencies has been determined based on the balances of financial assets and liabilities at March 31, 2017. This sensitivity does not represent the consolidated statement of loss and comprehensive loss impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

If the Canadian dollar had gained or lost 5% against each of the following currencies the increase (decrease) in total comprehensive income for the quarter ended March 31, 2017 would have been as follows:

	Impact on total comprehensive income		
Fluctuation in foreign currency rate	**CAD/GBP rate $**	**CAD/USD Rate $**	**CAD/AUD rate $**
+ 5%	21,972	16,575	262,019
- 5%	(21,972)	(16,575)	(262,019)

11. CONTINGENT LIABILITY

From time to time, the Company is involved in legal proceedings, audits, claims and litigation which primarily relate to tax exposure, investment agreement terminations and related disputes, contractual disputes and employee claims arising in the ordinary course of its business. Certain of these matters seek damages in significant amounts and will ultimately be resolved when one or more future events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the Company has no reason to believe that the disposition of any such current matter could reasonably be expected to have a materially adverse impact on the Company's consolidated financial position, results of operations or the ability to carry on any of its business activities.