Consolidated Financial Statements

LGC Capital Ltd.

For the years ended September 30, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of LGC Capital Ltd.

We have audited the accompanying consolidated financial statements of LGC Capital Ltd. (formerly Knowlton Capital Inc.) [the "Company"], which comprise the consolidated statement of financial position as at September 30, 2016 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Comparative information

The consolidated financial statements of the Company as at and for the 211 days ended September 30, 2015 (prior to the translation of the comparative information described in Note 1 to the consolidated financial statements) were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on December 10, 2015.

As part of our audit of the consolidated financial statements of the Company as at and for the year ended September 30, 2016, we also audited the translation of the comparative information described in note 1 that were applied to the consolidated financial statements as at and for the 211 days ended September 30, 2015. In our opinion, the translation has been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements of Company as at and for the 211 days ended September 30, 2015 other than with respect to the translation and, accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements as at and for the 211 days ended September 30, 2015 taken as a whole.

Ernst & Young LLP[1]

Montréal, Canada
January 30, 2017

[1] CPA auditor, CA, public accountancy permit no. A122227

LGC Capital Ltd.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	September 30, 2016	September 30, 2015
	$	$
ASSETS		
Current assets		
Cash	**486,137**	6,572,825
Available for sale investments *[note 8]*	**6,773,904**	1,599,774
Other receivables	**104,345**	115,391
Loan to associates and joint ventures *[note 11]*	**478,980**	—
	7,843,366	8,287,989
Non-current assets		
Investments in associates *[note 9]*	**68,119**	78,301
Investments in joint ventures *[note 10]*	**143,055**	—
Total assets	**8,054,540**	8,366,291
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities *[note 13]*	**503,473**	74,798
Total current liabilities	**503,473**	74,798
Equity		
Share capital *[note 12]*	**11,213,399**	8,399,794
Warrants *[note 12]*	**91,579**	—
Contributed surplus *[note 12]*	**1,049,052**	—
Accumlulated other comprehensive income	**3,156,245**	(10,619)
Deficit	**(7,959,208)**	(97,682)
Total equity	**7,551,067**	8,291,493
Total equity and liabilities	**8,054,540**	**8,366,291**

Commitments *[note 14]*
Subsequent events *[note 17]*

See accompanying notes

On behalf of the Board

LGC Capital Ltd.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	Year ended September 30, 2016	211 days ended September 30, 2015
	$	$
REVENUES	—	—
EXPENSES		
Adminstrative expenses *[note 6]*	**4,927,360**	97,682
Listing and compliance expenses *[notes 5 and 6]*	**2,814,731**	—
Impairment of investment in associates *[note 9]*	**69,628**	—
	7,811,719	97,682
Operating loss	**(7,811,719)**	(97,682)
Share of losses of associates *[note 9]*	**2,402**	—
Share of losses of joint ventures *[note 10]*	**30,575**	—
Foreign exchange loss	**16,830**	—
	49,807	—
Net loss for the year/period	**(7,861,526)**	(97,682)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income items that may subsequently be reclassified to profit or loss		
Increase in value of available for sale investments, net of taxes *[note 8]*	**4,586,365**	—
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	**(1,419,501)**	(10,619)
Other comprehensive income	**3,166,864**	(10,619)
Net loss and comprehensive loss	**(4,694,662)**	(108,301)
Net loss per share		
Basic and fully diluted	**(0.04)**	(0.00)
Weighted average number of outstanding shares		
Basic and fully diluted	**205,984,726**	169,146,920

See accompanying notes

LGC Capital Ltd.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital		Warrants		Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	#	$	#	$	$	$	$	$
Balance – March 3, 2015	—	—	—	—	—	—	—	—
Issuance of Leni Gas Cuba shares *[note 12]*	490,000,001	9,166,740	—	—	—	—	—	9,166,740
Share issue costs *[note 12]*	—	(766,946)	—	—	—	—	—	(766,946)
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	—	—	—	—	—	(10,619)	—	(10,619)
Net loss for the period	—	—	—	—	—	—	(97,682)	(97,682)
Balance – September 30, 2015	490,000,001	8,399,794	—	—	—	(10,619)	(97,682)	8,291,493
Issuance of Leni Gas Cuba shares *[note 12]*	**4,000,000**	**404,020**	**—**	**—**	**—**	**—**	**—**	**404,020**
Share issue costs *[note 12]*	**—**	**(22,391)**	**—**	**—**	**—**	**—**	**—**	**(22,391)**
Issuance of Leni Gas Cuba warrants *[note 12]*	**—**	**—**	**4,940,000**	**91,579**	**—**	**—**	**—**	**91,579**
Stock-based compensation *[note 12]*	**—**	**—**	**—**	**—**	**1,049,052**	**—**	**—**	**1,049,052**
Acquisition of LGC Capital *[notes 5 and 12]*	**36,445,314**	**8,293,621**	**—**	**—**	**136,689**	**—**	**(6,236,858)**	**2,193,452**
Elimination of LGC Capital equity upon RTO transaction *[notes 5 and 12]*	**—**	**(8,293,621)**	**—**	**—**	**(136,689)**	**—**	**6,236,858**	**(2,193,452)**
Share capital cancelled upon RTO transaction *[notes 5 and 12]*	**(494,000,001)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Cancellation of Leni Gas Cuba warrants upon RTO transaction *[notes 5 and 12]*	**—**	**—**	**(4,940,000)**	**—**	**—**	**—**	**—**	**—**
Issuance of LGC Capital warrants upon RTO transaction *[notes 5 and 12]*	**—**	**—**	**1,976,000**	**—**	**—**	**—**	**—**	**—**
Issuance of LGC Capital shares in connection with RTO *[notes 5 and 12]*	**197,599,996**	**2,431,976**	—	—	—	—	—	**2,431,976**
Increase in value of available for sale investments, net of taxes *[note 8]*	—	—	—	—	**—**	**4,586,365**	—	**4,586,365**
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	—	—	—	—	**—**	**(1,419,501)**	—	**(1,419,501)**
Net loss for the year	—	—	—	—	—	—	**(7,861,526)**	**(7,861,526)**
Balance – September 30, 2016	**234,045,310**	**11,213,399**	**1,976,000**	**91,579**	**1,049,052**	**3,156,245**	**(7,959,208)**	**7,551,067**

See accompanying notes

LGC Capital Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended September 30, 2016	211 days ended September 30, 2015
	$	$
OPERATING ACTIVITIES		
Net loss	**(7,861,526)**	(97,682)
Items not impacting cash:		
Excess of consideration over net liabilities assumed *[notes 5 and 6]*	**2,493,306**	—
Share of losses of associates *[note 9]*	**2,402**	—
Share of losses of joint ventures *[note 10]*	**30,575**	—
Impairment of investment in associates *[note 9]*	**69,628**	—
Stock-based compensation *[note 12(d)]*	**1,140,631**	—
	(4,124,984)	(97,682)
Net change in non-cash working capital items	**(311,542)**	(40,594)
Net cash flows from operating activities	**(4,436,526)**	(138,276)
INVESTING ACTIVITIES		
Acquisition of investment in associates *[note 9]*	**(73,614)**	(78,568)
Acquisition of investment in joint ventures *[note 10]*	**(183,750)**	—
Acquisition of available for sale investments *[note 8]*	**(1,410,493)**	(1,599,328)
Net cash acquired in connection with RTO *[note 5]*	**204,586**	—
Net cash flows from investing activities	**(1,463,271)**	**(1,677,896)**
FINANCING ACTIVITIES		
Proceeds from issuance of shares *[note 12]*	**404,020**	9,166,740
Share issue costs *[note 12]*	**(22,391)**	(766,946)
Net cash flows from financing activities	**381,629**	8,399,794
Net decrease (increase) in cash	**(5,518,169)**	6,583,622
Net foreign exchange differences	**(568,519)**	(10,797)
Cash, beginning of year / period	**6,572,825**	—
Cash, end of year / period	**486,137**	6,572,825

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2016 and the 211 days ended September 30, 2015

1. NATURE OF OPERATIONS AND COMPARATIVE INFORMATION

LGC Capital Ltd. (formerly Knowlton Capital Inc.) was incorporated under the Canada Business Corporations Act on July 9, 2004. LGC Capital Ltd. 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 Ltd. is located 800 Place Victoria, Suite 3700, Montréal, 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") *[note 5]* 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 Ltd. ("LGC Capital"). Prior to the RTO, Leni Gas Cuba's shares were traded on the ISDX Growth market, in London, until July 12, 2016.

LGC Capital, Leni Gas Cuba and its subsidiary Leni Gas Holdings Spain, SLU ("Leni Gas Spain"), are collectively referred to as the "Company" in these 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.

As a result of the RTO, for accounting purposes, Leni Gas Cuba, the legal acquiree, is the accounting acquirer of LGC Capital and all comparative information presented in these 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 consolidated financial statements as of July 12, 2016.

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

The comparative information of Leni Gas Cuba as at and for the 211 days ended September 30, 2015 have been translated from Pound Sterling ("GBP") to Canadian dollars which is the reporting currency of LGC Capital. All assets and liabilities were translated at the exchange rate as at September 30, 2015, share capital, warrants and contributed surplus were translated using the exchange rates at the date of the initial transactions, and revenue and expenses for the 211 days ended September 30, 2015 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 Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared on a historical cost basis, except for investments available for sale that have been measured at fair value.

The Board of Directors approved these consolidated financial statements on January 26, 2017.

Basis of consolidation

The consolidated financial statements include the financial statements of LGC Capital and its subsidiaries as described in note 1. All intra-group balances, income and expenses and unrealized gains and losses, resulting from intra-group transactions are eliminated in full on consolidation.

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

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of LGC Capital. The functional currency of Leni Gas Cuba is GBP.

Use of estimates and judgments

The preparation of the 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.

2. BASIS OF PREPARATION [Cont'd]

The Company has identified the following critical accounting policies under which significant judgments, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

[a] RTO accounting and fair value of listing expenses – Estimate

Reverse asset acquisitions whereby the accounting acquiree/legal acquirer is not a business, as defined under IFRS 3 (Revised), include an estimated listing expense which is considered a share-based payment. This share-based payment is measured based on the fair value of the shares that are either actually issued by the legal acquirer or deemed to be issued by the accounting acquirer, whichever basis is considered more reliable, since the fair value of the listing services received cannot be reliably measured. Any changes in the estimated fair value would result in a change in the listing expense recorded.

[b] Loans to associates and joint ventures – Estimate

The estimates to determine recovery of loans to associates and joint ventures includes the probability of recovery and timing of estimated repayments of loan balances. Any changes in estimates may have a significant impact on the Company's results.

[c] Share-based payments and warrants - Estimate

Where share-based payments are made to employees, the estimation of share-based payments at fair value at the date of grant requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The fair value of each option or option is evaluated using the Black-Scholes pricing model at the date of grant. The Company has made estimates as to the volatility, the expected life of options or warrants, and where applicable, expected forfeiture rates. The expected life of the option or warrant is based on historical data. The expected volatility is based on the historical volatility of the Company or comparable companies, as applicable, over the period of the expected life of the stock option or warrant. These estimates may not necessarily be indicative of future actual patterns.

Where share-based payments are made to non-employees, management estimates the fair value of the services rendered at the date on which the services are provided, based on present value techniques. If the Company cannot estimate reliably the fair value of the goods or services received, management measures their value by reference to the fair value of the equity instruments granted.

2. BASIS OF PREPARATION [Cont'd]

[d] Income taxes and valuation allowance - Estimate

The estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. If changes were made to management's assessment regarding the Company's ability to use future tax deductions, the Company could be required to recognize more or fewer deferred tax assets, and future income tax provisions or recoveries could be affected.

[e] Functional currency – Judgment

The functional currency of LGC Capital is the Canadian dollar and the functional currency of Leni Gas Cuba is GBP. Management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators before considering the other indicators, which are designed to provide additional supporting evidence to determine the entity's functional currency. Since the Company doesn't generate revenues, the currency in which the investments, loans, expenditures and financing are made is considered by management in determining the functional currency.

[f] Fair value and impairment of investments – Estimate

Fair value for available-for-sale financial assets ("AFS") are based on quoted (unadjusted) market prices in active markets for listed entities at period end, or on the most recent arm's length equity financing entered into for unlisted entities. For AFS assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Objective evidence of impairment exists if the counter-party is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable that the counter-party will enter into bankruptcy or a financial reorganization. Any changes in estimates may have a significant impact on the Company's results.

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Reverse takeover (RTO)

Reverse asset acquisitions and takeovers, whereby the accounting acquiree/legal acquirer is not a business, as defined under IFRS 3, are accounted for as a continuation of the financial statements of the legal acquiree, together with a deemed issue of shares, equivalent to the shares held by the former shareholders of the legal acquirer, and a re-capitalisation of the equity of the legal acquiree. This deemed issue of shares is recorded as a listing expense in net loss and is, in effect, an equity-settled share-based payment transaction whereby the accounting acquirer/legal acquiree has received the net assets of the accounting acquiree/legal acquirer together with the listing status of the legal acquirer.

Investment in associates and joint ventures

An associate is an entity over which the Company is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the investee.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Company's net loss reflects the share of the results of operations of the associates or joint ventures. Any change in other comprehensive income of those investees is presented as part of the Company's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associates or joint ventures, the Company recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associates or joint ventures are eliminated to the extent of the interest in the associates or joint ventures.

The aggregate of the Company's share of loss of the associates and joint ventures is recorded on the consolidated statements of operations outside operating profit and represents loss after tax.

3. PRINCIPAL ACCOUNTING POLICIES [Cont'd]

The financial statements of the associates and joint ventures are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associates or joint ventures. At each reporting date, the Company determines whether there is objective evidence that the investment in the associates or joint ventures is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associates or joint ventures and its carrying value, and then recognizes the loss in net loss.

Upon loss of significant influence over the associates or joint control over the joint ventures, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associates or joint ventures upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in net loss.

Issuance costs

Costs incurred in connection with the issuance of shares or warrants are allocated based on the fair value of each component and netted against each such component.

Share-based compensation

Where employees are rewarded using share-based payments, the fair values of employees' services are determined by reference to the fair value of the equity instruments granted. The fair value of each option (or warrant) is evaluated using the Black-Scholes pricing model at the date of grant. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. All share-based remuneration is recognized as an expense with a corresponding increase to contributed surplus.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options or warrants expected to vest. Estimates are subsequently revised, if there is any indication that the number of share options or warrants expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense in prior periods if share options or warrants ultimately exercised are different from those estimated on vesting.

Share-based payments for non-employee services, including warrants and options are measured at the fair value of the goods or services received and are recorded at the date the goods or services are received. If the Company cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

3. PRINCIPAL ACCOUNTING POLICIES [Cont'd]

Upon exercise of share options, the proceeds received are allocated to share capital. On the exercise of the warrants, the Black-Scholes related amounts are transferred from warrants to share capital whereas on expiry of the warrants, such amounts are transferred to contributed surplus.

Taxes

Current income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Current income tax relating to items recognized directly in total comprehensive loss or equity is recognized in other comprehensive loss or equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income taxes

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. Deferred income taxes are not recognized for temporary differences which arise for initial recognition of an asset or liability that affects neither the accounting nor taxable profit or loss at the time of the transaction.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and liabilities are presented as non-current.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

3. PRINCIPAL ACCOUNTING POLICIES [Cont'd]

Deferred income tax assets and deferred income tax liabilities are offset, if a legally-enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Commodity taxes

Expenses are recognized net of the amount of sales taxes except where the sales taxes incurred are not recoverable from the taxation authority, in which case, the sales taxes are recognized as part of the expense item.

Net loss per share

Net loss per share computations are based upon the weighted average number of common shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net income attributable to ordinary shares by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential ordinary shares into common shares. When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding warrants, share options and similar instruments.

Foreign currency translation

(i) Foreign operations

The assets and liabilities of subsidiaries that have a functional currency different from that of LGC Capital are translated into Canadian dollars at the closing rate at the date of the statements of financial position, and revenue and expenses are translated at the average rate for the period and the difference is recorded in accumulated other comprehensive loss. Gains and losses from intercompany foreign currency transactions of a long-term investment nature are included in accumulated other comprehensive loss.

(ii) Transactions in foreign currency

Transactions in foreign currencies are translated at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the reporting date. All differences that arise are recorded in net loss. Non-monetary assets measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

For the year ended September 30, 2016 and the 211 days ended September 30, 2015

3. PRINCIPAL ACCOUNTING POLICIES [Cont'd]

Financial instruments

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale investments, as appropriate. Financial liabilities are classified as other liabilities. The Company determines the classification of its financial assets or liabilities at initial recognition. When financial assets or liabilities are recognized initially, they are measured at fair value.

Subsequently, financial assets classified as loans and receivables and financial liabilities classified as other liabilities are measured at their amortized cost using the effective interest rate method. Financial assets and liabilities classified as fair value through profit or loss and assets classified as available-for-sale are measured subsequently at their fair values.

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company's financial assets and liabilities are classified and measured as follows:

	Classification	**Measurement**	**Fair Value Level**
Cash	Fair value through profit and loss	Fair value	I
Other receivables	Loans and receivable	Amortized cost	-
Loans to associates and joint ventures	Loans and receivable	Amortized cost	-
Available for sale investments (listed)	Available for sale	Fair value	I
Available for sale investments (unlisted)	Available for sale	Fair value	II
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	-

Derecognition of financial assets and liabilities

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Gains and losses on derecognition are recognized in net loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Gains or losses on these items are recognized in the net loss.

3. PRINCIPAL ACCOUNTING POLICIES [Cont'd]

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortized cost using the effective interest method, less impairment. Losses are recognized in net loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Other receivables classified as loans and receivables are non-interest bearing. Where the time value of money is material, receivables are discounted and are carried at their present value. A provision is made where the estimated recoverable amount is lower than the carrying amount.

Available for sale investments

Equity investments classified as AFS investments are those that are neither classified as held for trading nor designated at fair value through profit or loss. The unrealized gains and losses, net of applicable income taxes, on AFS investments are reported in other comprehensive loss until the investment is derecognised, at which time, the cumulative gain or loss is recognised in net loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from the accumulated other comprehensive income to net loss.

The Company evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to net loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to net loss.

Other liabilities

Other liabilities are recognized initially at fair value net of any directly-attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Other liabilities are presented as current if payment is due within twelve months. Otherwise, they are presented as non-current liabilities. Finance expense is recognized in the net loss using the effective interest method.

3. PRINCIPAL ACCOUNTING POLICIES [Cont'd]

Fair values of financial instruments carried at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or most advantageous market for the asset or liability.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities, or
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; such techniques may include using recent market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models. or
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of financial assets

Financial assets carried at amortized cost

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets carried at amortized costs are impaired. A financial asset or a group of financial assets carried at amortized cost is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced and the amount of the loss is recognized in the net loss.

3. PRINCIPAL ACCOUNTING POLICIES [Cont'd]

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in net loss to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS financial assets

For AFS financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from accumulative other comprehensive income and recognised in net loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

Segment reporting

The Company operates in one business segment that conducts investments in Cuba. The information provided is consistent with the internal reporting provided to the chief operating decision maker.

4. RECENT ACCOUNTING PRONOUNCEMENTS

The following pronouncements are issued but not yet effective for the year ended September 30, 2016:

a) IFRS 9 Financial Instruments

The final version of IFRS 9, Financial instruments ("IFRS 9") was issued by the IASB in July 2014 which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments: recognition and measurement ("IAS 39"). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for the Company on October 1, 2018. Retrospective application is required, but comparative information is not compulsory. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

4. RECENT ACCOUNTING PRONOUNCEMENTS [Cont'd]

b) IFRS 15, Revenue from contracts with customers

IFRS 15, issued in May 2014 provides a single, comprehensive revenue recognition framework for all contracts with customers to improve comparability of financial statements of companies globally. This new standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. IFRS 15 is effective for the Company on October 1, 2018. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

c) IFRS 16, Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 is effective for for the Company on October 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

5. REVERSE TAKEOVER

On July 12, 2016, LGC Capital acquired 100% of the issued and outstanding shares of Leni Gas Cuba in exchange for common shares of LGC Capital whereby shareholders of Leni Gas Cuba were issued one post-consolidation common share for every two and half (2.5) Leni Gas Cuba common shares held. Furthermore, all stock options and warrants of Leni Gas Cuba were exchanged for stock options and warrants of the Company on the same basis.

After completion of the RTO, Leni Gas Cuba shareholders held 84.43% of common shares of the Company while original shareholders of LGC Capital held 15.57%. Accordingly, Leni Gas Cuba, the legal acquiree, is the accounting acquirer of LGC Capital and LGC Capital, the legal acquirer, is the accounting acquiree. As a result, Leni Gas Cuba's assets, liabilities and operations are presented since incorporation in these consolidated financial statements at their historical value. LGC Capital's results of operations have been included from July 12, 2016.

The net liabilities assumed of LGC Capital are summarised as follows:

	$
Net liabilities assumed:	
Cash	**204,586**
Accounts receivable	**19,033**
Accounts payable and accrued liabilities	**(284,949)**
Net liabilities assumed	**(61,330)**
Consideration paid:	
Share capital	**2,431,976**
Excess of consideration over net liabilities assumed	**(2,493,306)**
	(61,330)

LGC Capital did not meet the definition of a business, as defined by IFRS 3 (Revised).

The share capital represents the estimated fair value of 91,100,083 shares deemed to be issued by Leni Gas Cuba to LGC shareholders for 15.57% of the combined entity calculated at $0.0267 per share. Excess of consideration over net liabilities assumed represents the difference between the estimated fair value of the Leni Gas Cuba shares deemed to be issued to LGC Capital shareholders less the net fair value of the liabilities of LGC Capital acquired.

As a result, the excess of consideration over net liabilities assumed of $2,493,306 together with transaction costs and professional fees associated with the RTO of $321,425 for a total of $2,814,731 have been recorded as listing expenses *[note 6]*.

6. EXPENSES BY NATURE

The following is a breakdown of the nature of expenses included in administration expenses and listing and compliance expenses for the year/period ended September 30:

	2016 $	2015 $
Administration expenses:		
Salaries and other employee benefits	**48,557**	—
Directors' fees and consultancy	**703,965**	—
Legal fees	**332,076**	—
Regulatory expenses	**831,245**	12,204
Consultancy fees	**1,200,725**	52,200
Travel and business development	**281,724**	—
Investor / public relations	**69,290**	—
Office expenses	**161,163**	3,791
Professional fees	**90,607**	27,521
Stock-based compensation - warrants *[note 12(d)]*	**91,579**	—
Stock-based compensation – stock options *[note 12(d)]*	**1,049,052**	—
Other administration	**67,377**	1,966
Total	**4,927,360**	97,682

	2016 $	2015 $
Listing and compliance expenses:		
Legal fees	**321,425**	—
Excess of consideration over net liabilities assumed *[note 5]*	**2,493,306**	—
Total	**2,814,731**	—

7. 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 year/period ended September 30 is as follows:

	2016 $	**2015** $
Loss before income tax	**(7,861,526)**	(97,682)
Income tax recovery at the combined Federal and Provincial tax rate 26.90% (2015 – 26.90%)	**(2,114,751)**	(26,276)
Effect of changes in tax rates on temporary items	**1,079**	—
Effect of foreign tax rate differences	**2,042,200**	26,276
Changes in valuation allowance	**71,472**	—
Tax recovery at an effective income tax rate	**—**	—

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

	September 30, 2016 $	**September 30, 2015** $
Future income tax assets		
Non-capital loss carry-forwards	**226,772**	—
Share issue costs	**2,677**	—
Other	**7,187**	—
Net future income tax assets	**236,636**	—
Unrecognized future income tax assets	**(236,636)**	—
Net future income tax	**—**	—

7. INCOME TAXES [Cont'd]

Tax loss carry-forwards

At September 30, 2016, LGC Capital had non-capital loss carry-forwards in the amount of $856,000 which are available to reduce future years' taxable income. These non-capital loss carry-forwards expire as follows:

	Non-capital losses $
2033	7,000
2034	203,000
2035	152,000
2036	494,000
	856,000

8. AVAILABLE FOR SALE INVESTMENTS

A breakdown of available for sale investments as at September 30, 2016 and 2015 and the respective changes during the year/period then ended are summarized as follows:

	2016 $	**2015** $
Balance, beginning of year	**1,599,774**	—
Additions	**1,410,493**	1,599,328
Increase in value	**4,586,366**	—
Foreign currency loss on translation	**(822,729)**	446
Balance, end of year	**6,773,904**	1,599,774

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, 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). As a result of share issues by Petro Australis during the reporting period, the Company's interest in Petro Australis was diluted to 14.0% as at September 30, 2016.

8. AVAILABLE FOR SALE INVESTMENTS [Cont'd]

b) Melbana Energy Limited *[note 17]*

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 in 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. The closing share price of Melbana on September 30, 2016 was A$0.032, resulting in an increase in value of the Company's investment of A$2,814,331 ($3,641,550).

c) The Cuba Mountain Coffee Company Limited *[note 17]*

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). The Company's shareholding represented on acquisition a 10.14% interest in Cuba Mountain.

9. INVESTMENTS IN ASSOCIATES

The table below presents the Company's associates.

Associate	**Country of registration**	**Nature of business**	**Holding September 30, 2016**	**Holding September 30, 2015**
Travelwelcome Limited	England & Wales	Non-trading	40%	40%
InCloud9 S.A.	Panama	Cuban travel business	40%	—
InCloud9 OU	Estonia	Cuban travel business	40%	—
Cuba Professionals Inc.	Panama	Cuban human resources	49%	—

9. INVESTMENTS IN ASSOCIATES [Cont'd]

A breakdown of investments in associates as at September 30, 2016 and 2015 and the respective changes during the year/period then ended are summarized as follows:

	2016 $	**2015** $
Balance, beginning of year	**78,301**	—
Additions	**73,614**	78,568
Share of loss	**(2,402)**	—
Impairment	**(69,628)**	—
Foreign currency loss on translation	**(11,767)**	(267)
Balance, end of year	**68,119**	78,301

Financial information as at September 30, 2016	**Travelwelcome Limited / IC9** $
Cash	121,020
Other current assets	121,727
Non-current assets	24,303
Total assets	267,050
Current liabilities	(226,474)
Net assets	40,576
Share of net assets	16,230
Revenue	1,358,723
Profit	5,081
Share of profit	2,321

a) Travelwelcome / InCloud9

In September 2015, the Company acquired a 40% interest in Travelwelcome Limited, a private limited company incorporated in England and Wales, for a total consideration of US$60,000 ($78,568). In November 2015, Travelwelcome Ltd agreed to join forces with the InCloud9 S.A. and InCloud9 OU (collectively "InCloud9 Group"), which operates a bespoke Cuban travel and concierge business. As a result, the Company acquired a 40% interest in the InCloud9 Group. During the year ended September 30, 2016, the Company's share of profit amounted to £1,299 ($2,321) (2015 – nil).

9. INVESTMENTS IN ASSOCIATES [Cont'd]

As at September 30, 2016, the balance of loans provided by the Company to InCloud 9 Group, amounted to US$130,918 ($172,290) (2015 – nil) *[note 11]*. The loans are unsecured, non-interest bearing and repayable upon demand.

b) Cuba Professionals Inc.

In March 2016, the Company acquired a 49% interest in Cuba Professionals Inc. a private company incorporated in Panama. Cuba Professionals Inc. provides human resources and consulting services in Cuba. Pursuant to the binding term sheet signed between Leni Gas Cuba and Cuba Professionals Inc., the Company subscribed for new ordinary shares representing 49% of Cuba Professionals Inc.'s equity in consideration of EUR180,000 ($265,573), payable in instalments over a nine month period. Specifically, the Company was to acquire its 49% interest on payment of an initial EUR50,000 ($73,614) on signing of the binding term sheet on March 1, 2016, followed by further scheduled payments of EUR50,000 ($73,770) on June 1, 2016, EUR50,000 ($73,770) on September 1, 2016, and EUR30,000 ($44,262) on December 31, 2016.

During the year ended September 30, 2016, the Company's share of losses amounted to £2,501 ($4,723) (2015 – nil) and the Company recorded an impairment of £36,869 ($69,628). Subsequently, on December 17, 2016, Leni Gas Cuba terminated its agreement with Cuba Professionals Inc.

10. INVESTMENTS IN JOINT VENTURES

The table below presents the Company's unincorporated joint ventures, which are accounted for using the equity method.

Associate	**Country of registration**	**Nature of business**	**Interest September 30, 2016**	**Interest September 30, 2015**
Groombridge Trading Corporation	Cuba/Canada	Trading	50%	—
Rushmans Ltd.	Cuba/ International	Cuban sport	50%	—
Commercially Funded Solar Ltd.	Cuba/ International	Renewable energy	50%	—

10. INVESTMENTS IN JOINT VENTURES [Cont'd]

A breakdown of investments in joint ventures as at September 30, 2016 and 2015 and the respective changes during the year/period then ended are summarized as follows:

	2016	**2015**
	$	$
Balance, beginning of year	—	—
Additions	**183,750**	—
Share of loss	**(30,575)**	—
Foreign currency loss on translation	**(10,120)**	—
Balance, end of year	**143,055**	—

Financial information for year ended September 30, 2016	**Rushmans JV $**
Current assets	—
Total assets	—
Current liabilities	(55,269)
Net liabilities	(55,269)
Share of net liabilities	(27,635)
Revenue	—
Loss	(61,150)
Share of loss	(30,575)

a) Rushmans joint venture

In April 2016 the Company executed a 50/50 unincorporated joint venture with Rushmans Ltd. (the "Rushmans JV"), to explore the opportunities available for international entities to participate in the development and marketing of Cuban sports.

Rushmans Ltd. ("Rushmans") has played a key role in planning and delivering a host of major events including European Championships in Football and World Cups in Cricket and Rugby. The company has also acted as a strategic advisor to sport and corporations worldwide.

The Rushmans JV has been granted an exclusive licence to use the Rushmans brand and intellectual property in respect to Cuban sporting opportunities, in consideration for the Company paying £100,000 ($183,750). The Company will fund any Rushmans JV projects accepted by LGC Capital, as well as providing an initial £40,000 in working capital.

10. INVESTMENTS IN JOINT VENTURES [Cont'd]

During the year ended September 30, 2016, the Company's share of losses amounted to £16,190 ($30,575) (2015 – nil). As at September 30, 2016, the balance of the loan provided by the Company to the Rushmans JV amounted to £32,380 ($55,269) (2015 – nil) *[note 11]*. The loans are unsecured, non-interest bearing and to be repaid before any pro-rata distributions to the Rushman JV parties.

b) Groombridge Trading Corporation joint venture

In November 2016, the Company entered into a binding agreement with Groombridge Trading Corporation ("GTC") to establish an unincorporated 50/50 joint venture ("the GTC JV") to expand GTC's existing trading business of supplying products, machinery and equipment to Cuba, in particular to the growing tourism sector. GTC is a Canadian company that is approved to trade in Cuba by the Cuban Ministry of Foreign Trade and Investment and the Ministry of Agriculture and is also authorised to trade with other Cuban Government entities. The GTC JV will have an exclusive, first right of refusal to participate on a deal by deal, 50/50 basis, on any transaction generated by GTC. As at September 30, 2016, the Company has not established the GTC JV.

As at September 30, 2016, the balance of the working capital loan provided by the Company to the GTC JV amounted to £139,710 ($238,471) (2015 – nil) *[note 11]*. The loan is unsecured, non-interest bearing and to be repaid before any pro-rata distributions to the GTC JV parties.

c) Commercial Funded Solar joint venture

On May 12, 2016, the Company entered into an agreement with UK solar power and storage specialists, Commercial Funded Solar Ltd., to establish an unincorporated joint venture ("the CFS JV") to assess the potential for installing and operating renewable energy and hybrid power solutions (solar power, energy storage and integrated power management systems) in Cuba. As at September 30, 2016, the Company has not established the CFS JV.

11. LOANS TO ASSOCIATE AND JOINT VENTURES

	2016 $	**2015** $
Loans due from an associate *[note 9]*	**172,290**	—
Loans due from Rushmans JV *[note 10]*	**55,269**	—
Loans due from GTC JV *[note 10]*	**238,471**	—
Other	**12,950**	—
Total	**478,980**	—

The loans provided to associate and joint ventures are unsecured and non-interest bearing and the carrying amount of loans to associates and joint ventures approximates to their fair value.

12. SHARE CAPITAL

Authorized

Common

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

[a] Common shares

Reverse takeover *[notes 1 and 5]*

On July 12, 2016, prior to the RTO transaction, LGC Capital had 46,575,000 common shares outstanding. The shares were consolidated at a ratio of 1.27795529 pre-consolidation shares to 1 post consolidation share resulting in LGC Capital having 36,445,314 common shares outstanding.

On July 12, 2016, prior to the RTO transaction, Leni Gas Cuba had 494,000,001 common shares outstanding. On July 12, 2016, in conjunction with the RTO transaction *[note 5]*, LGC Capital issued 197,599,996 common shares to Leni Gas Cuba shareholders.

[b] Stock options *[notes 1 and 5]*

On July 6, 2016, the Company adopted the LGC Capital Stock Option Plan (the "Option Plan"). Under the Option Plan, up to 46,809,065 options to acquire the Company's common shares may be granted to its directors, officers, employees and consultants. The plans do not feature any options for a cash settlement. As a result of the adoption of the Option Plan, no further stock options will be granted under the previous Knowlton Stock Option Plan, which was established by the Board of Directors of the Company effective July 6, 2006 and approved by the Company's shareholders on November 20, 2006. However, stock options previously granted under the Knowlton Stock Option Plan will remain subject to the terms and conditions thereof.

On July 12, 2016, prior to the RTO transaction, LGC Capital had 2,533,775 stock options vested and outstanding. The stock options were consolidated at a ratio of 1.27795529 pre-consolidation shares to 1 post-consolidation share resulting in LGC Capital having 1,982,679 stock options vested and outstanding. The exercise price of the options, while remaining in Canadian dollars, was adjusted by the consolidation ratio while the remaining life of the stock options remained unchanged.

On July 12, 2016, in conjunction with the RTO transaction, all of the 95,000,000 Leni Gas Cuba vested and outstanding stock options were cancelled and replaced with 38,000,000 LGC Capital stock options using the exchange ratio 2.5 to 1. The exercise price of the replacement LGC Capital options is in Canadian dollars, and was also adjusted by the exchange ratio while the remaining life of the stock options remained unchanged.

12. SHARE CAPITAL [Cont'd]

The outstanding options as at September 30, 2016 and 2015 (adjusted for the consolidation ratio) and the respective changes during the year/period then ended, are summarized as follows:

	2016		2015	
	Number of options #	Weighted average exercise price $	Number of options #	Weighted average exercise price $
Outstanding, beginning of year/period	**—**	**—**	—	—
Grants by Leni Gas Cuba during the year /period	**95,000,000**	**0.16**	—	—
Acquisition of LGC Capital *[note 5]*	**1,982,679**	**0.07**	—	—
Cancellation of Leni Gas Cuba options upon RTO transaction *[note 5]*	**(95,000,000)**	**(0.16)**	—	—
Replacement of Leni Gas Cuba options by LGC Capital upon RTO transaction *[note 5]*	**38,000,000**	**0.36**	—	—
Grants by LGC Capital during the year /period	**1,000,000**	**0.14**	—	—
Outstanding, end of year/period	**40,982,679**	**0.34**	—	—

No options were exercised during the year ended September 30, 2016 (2015 – nil).

The following options are outstanding and exercisable as at September 30, 2016.

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	6,982,679	2.23	0.09	5,982,679	0.08
0.15 to 0.299	22,000,000	3.86	0.23	22,000,000	0.23
0.45 to 0.599	4,000,000	2.09	0.46	4,000,000	0.46
0.60 to 0.749	4,000,000	2.09	0.70	4,000,000	0.70
0.90 to 1.049	4,000,000	2.09	0.93	4,000,000	0.93
0.00 to 1.499	**40,982,679**	**3.06**	**0.34**	**39,982,679**	**0.35**

12. SHARE CAPITAL [Cont'd]

The fair value of stock options granted during 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:

	2016
Risk-free interest rate	**1.18%**
Expected volatility	**83%**
Dividend yield	**Nil**
Expected life [in years]	**4.03**
Share price at grant date	**$0.089**
Fair value at grant date	**$0.011**

[c] Warrants *[notes 1 and 5]*

On July 12, 2016, in conjunction with the RTO transaction, all of the 4,940,000 Leni Gas Cuba's outstanding warrants were cancelled and replaced with 1,976,000 LGC Capital warrants using the exchange ratio 2.5 to 1. The exercise price of the replacement LGC Capital warrants, is in Canadian dollars and was also adjusted by the consolidation ratio while the remaining life of the warrants remained unchanged.

The outstanding warrants as at September 30, 2016 and 2015 and the respective changes during the year/period then ended are summarized as follows:

	2016		**2015**	
	Number of warrants #	**Weighted average exercise price** $	**Number of warrants** #	**Weighted average exercise price** $
Outstanding balance, beginning of year/period	**—**	**—**	—	—
Grants in Leni Gas Cuba during the year/period	**4,940,000**	**0.10**	—	—
Cancellation of Leni Gas Cuba warrants upon RTO transaction *[note 5]*	**(4,940,000)**	**0.10**	—	—
Replacement of Leni Gas Cuba warrants by LGC Capital upon RTO transaction *[note 5]*	**1,976,000**	**0.23**	—	—
Outstanding balance, end of year/period	**1,976,000**	**0.23**	—	—

12. SHARE CAPITAL [Cont'd]

As at September 30, 2016, the warrants outstanding had a weighted average life of 6.08 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:

	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**

[d] Stock-based compensation

For the year ended September 30, 2016, the stock-based compensation expense included in net loss, was $1,140,631 (2015 – nil) *[note 6]*.

13. 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 year ended September 30, 2016, the Company purchased travel services from its associate, InCloud9. During the year ended September 30, 2016, the total amount charged to administration expenses in respect of such services amounted to $79,227 (2015 – nil).

[b] During the year ended September 30, 2016, the Company incurred expenditures related to the provision of serviced office facilities from a company in which a former director of the Company is a director. For the year ended September 30, 2016, the total amount charged to administration expenses in respect of such related party services amounted to $37,500 (2015 – nil).

[c] During the year ended September 30, 2016, 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 year ended September 30, 2016, the total amount for such services was $60,916, which was recorded in directors fees (2015 – nil). As at September 30, 2016, an amount of $14,810 (September 30, 2015 – nil) owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.

13. RELATED PARTY TRANSACTIONS [Cont'd]

[d] Compensation of key management personnel and Board of Directors

Excluding the amounts reported above, during the year/period ended September 30, 2016 and 2015, the Company recorded the following compensation for key management personnel and the Board of Directors:

	2016 $	**2015** $
Directors' fees	**643,049**	—
Stock compensation	**665,281**	—
Total	**1,308,330**	—

14. COMMITMENTS

Operating lease commitments

As at September 30, 2016, the Corporation had commitments under operating leases requiring annual rental payments as follows:

	Total $
2017	69,295
2018	69,295
2019	69,295
2020	69,295
2021	17,324
	294,504

15. 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 exploration 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.

15. FINANCIAL INSTRUMENTS [Cont'd]

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. The Company's Board of Directors receive monthly reports through which they review the effectiveness of the processes put in place and the appropriateness of the objectives and policies they set.

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.

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.

15. FINANCIAL INSTRUMENTS [Cont'd]

As at September 30, 2016, the Company had a total of $486,317 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 analyses 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.

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

- The 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 September 30, 2016 and 2015 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 September 30, 2016. 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.

15. FINANCIAL INSTRUMENTS [Cont'd]

If the Canadian dollar had gained or lost 5% against each of the following currencies the increase (decrease) in total comprehensive income for the year ended September 30, 2016would have been as follows:

	Impact on total comprehensive income		
Fluctuation in foreign currency rate	**CAD/GBP rate** $	**CAD/USD Rate** $	**CAD/AUD rate** $
+ 5%	254,500	12,000	336,000
- 5%	(254,500)	(12,000)	(336,000)

16. 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.

17. SUBSEQUENT EVENTS

In December 2016 the Company participated in a rights issue by the Cuba Mountain Coffee Company Limited for an investment of £11,200 ($18,635) that maintained its interest of 10.14% *[note 8(c)]*.

During the period October 4, 2016 to January 17, 2017, the Company divested of 9,546,943 shares in Melbana at an average price of A$0.025 for total proceeds of A$242,000 ($243,000) which resulted in a reduction of the Company's interest in Melbana from 14.76% on September 30, 2016 to 13.76% as at January 17, 2017 *[note 8(b)]*.