

## Condensed Interim Consolidated Financial Statements

### **LGC Capital Limited**

(formerly Knowlton Capital Inc.)

For the three-months ended December 31, 2016 and 2015

(Unaudited)

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#### **NOTICE TO READER**

Management has compiled the unaudited condensed interim consolidated financial statements of LGC Capital Ltd. as at December 31, 2016 and for the three month periods ended December 31, 2016 and 2015. 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)

	December 31, 2016	September 30, 2016
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	206,649	486,137
Available for sale investments <i>[note 6]</i>	4,619,655	6,773,904
Other receivables	65,633	104,345
Loan to associates and joint ventures	607,562	478,980
	<u>5,499,499</u>	<u>7,843,366</u>
<b>Non-current assets</b>		
Investments in associates	66,383	68,119
Investments in joint ventures	122,377	143,055
<b>Total assets</b>	<u>5,688,259</u>	<u>8,054,540</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities <i>[note 8]</i>	735,917	503,473
<b>Total current liabilities</b>	<u>735,917</u>	<u>503,473</u>
<b>Equity</b>		
Share capital <i>[note 7]</i>	11,213,399	11,213,399
Warrants <i>[note 7]</i>	91,579	91,579
Contributed surplus <i>[note 7]</i>	1,094,386	1,049,052
Accumulated other comprehensive income	1,027,801	3,156,245
Deficit	(8,474,823)	(7,959,208)
<b>Total equity</b>	<u>4,952,342</u>	<u>7,551,067</u>
<b>Total equity and liabilities</b>	<u>5,688,259</u>	<u>8,054,540</u>

Subsequent events *[note 11]*

*See accompanying notes*

On behalf of the Board

**INTERIM CONSOLIDATED STATEMENTS OF LOSS  
AND COMPREHENSIVE LOSS  
(UNAUDITED)**

	<b>Three months ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>REVENUES</b>	—	—
<b>EXPENSES</b>		
Administrative expenses <i>[note 4]</i>	655,845	2,630,685
Realized gain on available for sale investments <i>[note 6]</i>	(154,382)	—
	<b>501,463</b>	<b>2,630,685</b>
<b>Operating loss</b>	<b>(501,463)</b>	<b>(2,630,685)</b>
Interest income	(64)	—
Share of profits of associates	(280)	(2,264)
Share of losses of joint ventures	16,446	—
Foreign exchange (gain) / loss	(1,950)	1,748
	<b>14,152</b>	<b>(516)</b>
<b>Net loss for the period</b>	<b>(515,615)</b>	<b>(2,630,169)</b>
<b>OTHER COMPREHENSIVE LOSS</b>		
<b>Other comprehensive loss items that may subsequently be reclassified to profit or loss</b>		
Decrease in value of available for sale investments, net of taxes <i>[note 6]</i>	(1,690,153)	—
Realized loss on available for sale investments reclassified to profit or loss <i>[note 6]</i>	(205,352)	—
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	(232,939)	(53,242)
<b>Other comprehensive loss</b>	<b>(2,128,444)</b>	<b>(53,242)</b>
<b>Net loss and comprehensive loss</b>	<b>(2,644,059)</b>	<b>(2,683,411)</b>
<b>Net loss per share</b>		
Basic and fully diluted	<b>(0.00)</b>	<b>(0.01)</b>
<b>Weighted average number of outstanding shares</b>		
Basic and fully diluted	<b>234,045,310</b>	<b>197,026,087</b>

*See accompanying notes*

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(UNAUDITED)**

	Share capital		Warrants		Contributed surplus	Accumulated other comprehensive income	Deficit	Total
	#	\$	#	\$				
<b>Balance – October 1, 2015</b>	490,000,001	8,399,794	—	—	—	(10,619)	(97,682)	8,291,493
Issuance of Leni Gas Cuba shares <i>[note 7]</i>	4,000,000	404,020	—	—	—	—	—	404,020
Share issue costs <i>[note 7]</i>	—	(22,391)	—	—	—	—	—	(22,391)
Issuance of Leni Gas Cuba warrants <i>[notes 4 and 7]</i>	—	—	4,940,000	91,579	—	—	—	91,579
Stock-based compensation <i>[notes 4 and 7]</i>	—	—	—	—	1,013,924	—	—	1,013,924
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	—	—	—	—	—	(53,059)	—	(53,059)
Net loss for the period	—	—	—	—	—	—	(2,630,169)	(2,630,169)
<b>Balance – December 31, 2015</b>	<b>494,000,001</b>	<b>8,781,423</b>	<b>4,940,000</b>	<b>91,579</b>	<b>1,013,924</b>	<b>(63,678)</b>	<b>(2,727,851)</b>	<b>7,095,398</b>
<b>Balance – October 1, 2016</b>	<b>234,045,310</b>	<b>11,213,399</b>	<b>1,976,000</b>	<b>91,579</b>	<b>1,049,052</b>	<b>3,156,245</b>	<b>(7,959,208)</b>	<b>7,551,067</b>
Decrease in value of available for sale investments, net of taxes <i>[note 6]</i>	—	—	—	—	—	(1,690,153)	—	(1,690,153)
Realized loss on available for sale investments reclassified to profit or loss <i>[note 6]</i>	—	—	—	—	—	(205,352)	—	(205,352)
Stock-based compensation <i>[notes 4 and 7]</i>	—	—	—	—	45,334	—	—	45,334
Foreign exchange loss on translation of foreign subsidiaries, net of taxes	—	—	—	—	—	(232,939)	—	(232,939)
Net loss for the period	—	—	—	—	—	—	(515,615)	(515,615)
<b>Balance – December 31, 2016</b>	<b>234,045,310</b>	<b>11,213,399</b>	<b>1,976,000</b>	<b>91,579</b>	<b>1,094,386</b>	<b>1,027,801</b>	<b>(8,474,823)</b>	<b>4,952,342</b>

*See accompanying notes*

**LGC Capital Limited**

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)**

	<b>Three months ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(515,615)	(2,630,169)
Items not impacting cash:		
Realised gain on sale of available for sale investments <i>[note 6]</i>	(154,382)	—
Share of profit of associates	(280)	(2,264)
Share of losses of joint ventures	16,446	—
Stock-based compensation <i>[notes 4 and 9(d)]</i>	45,334	1,105,504
	<u>(608,497)</u>	<u>(1,526,929)</u>
Net change in non-cash working capital items	125,883	(202,157)
<b>Net cash flows from operating activities</b>	<b><u>(482,614)</u></b>	<b><u>(1,729,086)</u></b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of available for sale investments <i>[note 6]</i>	(18,552)	—
Disposal of available for sale investments <i>[note 6]</i>	231,765	—
<b>Net cash flows from investing activities</b>	<b><u>213,213</u></b>	<b><u>—</u></b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares <i>[note 7]</i>	—	404,020
Share issue costs <i>[note 7]</i>	—	(22,391)
<b>Net cash flows from financing activities</b>	<b><u>—</u></b>	<b><u>381,629</u></b>
<b>Net decrease in cash</b>	<b>(269,401)</b>	<b>(1,347,457)</b>
Net foreign exchange differences	(10,087)	(67,081)
Cash, beginning of period	486,137	6,572,825
<b>Cash, end of period</b>	<b><u>206,649</u></b>	<b><u>5,158,287</u></b>

*See accompanying notes*

## **LGC Capital Limited**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

December 31, 2016

#### **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, 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”). 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.

## **LGC Capital Limited**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

December 31, 2016

#### **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 three months ended December 31, 2015, 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-months ended December 31, 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 condensed interim consolidated financial statements of the Company for the quarter ended December 31, 2016 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 February 27, 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.

## **LGC Capital Limited**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

December 31, 2016

#### **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

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.

#### **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.

## LGC Capital Limited

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 31, 2016

#### 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 quarters ended December 31:

	2016	2015
	\$	\$
<b>Administration expenses:</b>		
Salaries and other employee benefits	19,079	—
Directors' fees and consultancy	146,367	107,016
Legal fees	38,138	99,002
Regulatory expenses	63,499	712,423
Consultancy fees	224,264	537,535
Travel and business development	28,864	55,172
Investor / public relations	8,696	2,833
Office expenses	52,460	2,934
Professional fees	15,950	—
Stock-based compensation - warrants (note 7(d))	—	91,579
Stock-based compensation – stock options (note 7(d))	45,334	1,013,925
Other administration	13,194	8,266
<b>Total</b>	<b>655,845</b>	<b>2,630,685</b>

#### 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 quarters ended December 31 is as follows:

	2016	2015
	\$	\$
Loss before income tax	(515,615)	(2,632,433)
Income tax recovery at the combined Federal and Provincial tax rate 26.90% [2015 – 26.90%]	(138,701)	(708,124)
Effect of changes in tax rates on temporary items	1,208	—
Effect of foreign tax rate differences	57,476	708,124
Changes in valuation allowance	80,017	—
Tax recovery at an effective income tax rate	—	—

**LGC Capital Limited**

**NOTES TO CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS  
(UNAUDITED)**

December 31, 2016

**5. INCOME TAXES [Cont'd]**

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

	<b>December 31, 2016</b>	<b>September 30, 2016</b>
	\$	\$
<b>Future income tax assets</b>		
Non-capital loss carry-forwards	<b>307,155</b>	226,772
Share issue costs	<b>2,311</b>	2,677
Other	<b>7,187</b>	7,187
Net future income tax assets	<b>316,653</b>	236,636
Unrecognized future income tax assets	<b>(316,653)</b>	(236,636)
<b>Net future income tax</b>	<b>—</b>	<b>—</b>

**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	303,000
	<u>1,159,000</u>

## LGC Capital Limited

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 31, 2016

#### 6. AVAILABLE FOR SALE INVESTMENTS

A breakdown of available for sale investments as at December 31, 2016 and September 30, 2016 and the respective changes during the quarter and the year then ended, are summarized as follows:

	Three-months ended December 31, 2016 \$	Year ended September 30, 2016 \$
Balance, beginning of period	6,773,904	1,599,774
Additions	18,552	1,410,493
Disposals	(282,289)	—
(Decrease) / increase in value	(1,690,153)	4,586,366
Foreign currency loss on translation	(200,359)	(822,729)
<b>Balance, end of period</b>	<b>4,619,655</b>	<b>6,773,904</b>

#### 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 December 31, 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) and A\$nil (\$nil) respectively. As at September 30, 2016 and December 31, 2016 the Company’s interest in Petro Australis was 14.0%.

#### b) Melbana Energy Limited (note 9)

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.

## **LGC Capital Limited**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

December 31, 2016

#### **6. AVAILABLE FOR SALE INVESTMENTS [Cont'd]**

During the three-months ended December 31, 2016, the Company divested 9,046,943 shares in Melbana at an average price of A\$0.026 for total proceeds of A\$230,900 (\$231,319) which resulted in a reduction of the Company's interest in Melbana from 14.76% on September 30, 2016 to 13.81% at December 31, 2016. During the three-months ended December 31, 2016, the Company recognized a gain on disposal of shares of Melbana of A\$140,431 (C\$154,382), recorded in profit and loss, and a loss on disposal of shares of Melbana of A\$199,033 (C\$205,352), recorded in other comprehensive loss. The closing share price of Melbana as at December 31, 2016 was A\$0.019 and during the three-months then ended the decrease in value of the Company's investment amounted to A\$1,711,705 (\$1,690,153).

#### **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 December 31, 2016, 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 December 31, 2016 the Company's interest in The Cuba Mountain was 10.14%.

#### **7. SHARE CAPITAL**

##### **Authorized**

##### **Common**

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

##### **[a] Common shares**

##### **Issuances during the quarter ended December 31, 2016**

[i] There were no issuances of common shares during the three-months ended December 31, 2016.

##### **Issuances during the quarter ended December 31, 2015 (Leni Gas Cuba)**

[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).

**LGC Capital Limited**

**NOTES TO CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS  
(UNAUDITED)**

December 31, 2016

**7. SHARE CAPITAL [Cont'd]**

**[b] Stock options**

The outstanding options as at December 31, 2016 and September 30, 2016 (adjusted for the consolidation ratio) and the respective changes during the quarter and the year then ended, are summarized as follows:

	<b>Three-months ended December 31, 2016</b>		<b>Year ended September 30, 2016</b>	
	<b>Number of options #</b>	<b>Weighted average exercise price \$</b>	<b>Number of options #</b>	<b>Weighted average exercise price \$</b>
<b>Outstanding, beginning of period</b>	<b>40,982,679</b>	<b>0.34</b>	—	—
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	—	—	1,000,000	0.14
Cancellations during the period / year	<b>(2,000,000)</b>	<b>(0.23)</b>	—	—
<b>Outstanding, end of period</b>	<b>38,982,679</b>	<b>0.35</b>	40,982,679	0.34

No options were exercised during the quarter ended December 31, 2016 [Year ended September 30, 2016 – nil].

**LGC Capital Limited**

**NOTES TO CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS  
(UNAUDITED)**

December 31, 2016

**7. SHARE CAPITAL [Cont'd]**

The following options are outstanding and exercisable as at December 31, 2016.

<b>Options outstanding</b>					
<b>Range of exercise price</b>	<b>Number outstanding</b>	<b>Weighted average remaining contractual life</b>	<b>Weighted average exercise price</b>	<b>Number exercisable</b>	<b>Weighted average exercise price</b>
\$	#	(in years)	\$	#	\$
0.00 to 0.149	6,982,679	1.98	0.09	6,232,679	0.08
0.15 to 0.299	20,000,000	3.57	0.23	20,000,000	0.23
0.45 to 0.599	4,000,000	1.84	0.46	4,000,000	0.46
0.60 to 0.749	4,000,000	1.84	0.70	4,000,000	0.70
0.90 to 1.049	4,000,000	1.84	0.93	4,000,000	0.93
<b>0.00 to 1.499</b>	<b>38,982,679</b>	<b>2.75</b>	<b>0.35</b>	<b>38,232,679</b>	<b>0.35</b>

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:

	<b>September 30, 2016</b>
Risk-free interest rate	<b>1.18%</b>
Expected volatility	<b>83%</b>
Dividend yield	<b>Nil</b>
Expected life [in years]	<b>4.03</b>
Share price at grant date	<b>\$0.089</b>
Fair value at grant date	<b>\$0.011</b>

**LGC Capital Limited**

**NOTES TO CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS  
(UNAUDITED)**

December 31, 2016

**7. SHARE CAPITAL [Cont'd]**

**[c] Warrants**

The outstanding warrants as at December 31, 2016 and September 30, 2016 and the respective changes during the quarter and the year then ended, are summarized as follows:

	<b>Three months ended December 31, 2016</b>		<b>Year ended September 30, 2016</b>	
	<b>Number of warrants #</b>	<b>Weighted average exercise price \$</b>	<b>Number of warrants #</b>	<b>Weighted average exercise price \$</b>
<b>Outstanding balance, beginning of period</b>	<b>1,976,000</b>	<b>0.23</b>	—	—
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
<b>Outstanding balance, end of period</b>	<b>1,976,000</b>	<b>0.23</b>	<b>1,976,000</b>	<b>0.23</b>

As at December 31, 2016, the warrants outstanding had a weighted average life of 5.84 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:

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

**[d] Stock-based compensation**

For the quarter ended December 31, 2016, the stock-based compensation expense included in net loss, was \$45,334 [2015 – \$1,105,504] (refer note 4).

## LGC Capital Limited

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 31, 2016

#### 8. 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-months ended December 31, 2016, the Company purchased travel services from its associate, InCloud9. During the three-months ended December 31, 2016, the total amount charged to administration expenses in respect of such services amounted to \$10,449 [2015 – \$17,508].
- [b] During the three-months ended December 31, 2016, the Company made working capital loans to the its 40% owned associate, InCloud9 in the amount of \$59,932 [2015 - \$40,245].
- [c] During the three-months ended December 31, 2016, the Company made working capital loans to the 50:50 unincorporated joint venture with Groombridge Trading in the amount of \$12,423 [2015 - \$132,646].
- [d] During the three-months ended December 31, 2016, the Company made working capital loans to the 50:50 unincorporated joint venture with Rushmans Ltd in the amount of \$29,011 [2015 – nil].
- [e] During the three-months ended December 31, 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 quarter ended December 31, 2016, the total amount for such services was \$86,604, which was recorded in directors fees [2015 – nil]. As at December 31, 2016, an amount of \$84,467 [September 30, 2016 – \$14,810] owing to these firms was included in accounts payable and accrued liabilities in respect of these fees.
- [f] **Compensation of key management personnel and Board of Directors**

Excluding the amounts reported above, during the three-months ended December 31, 2016 and 2015, the Company recorded the following compensation for key management personnel and the Board of Directors:

	2016	2015
	\$	\$
Directors' fees	<u>59,763</u>	107,016
Stock compensation	—	665,281
<b>Total</b>	<u><b>59,763</b></u>	<u><b>772,297</b></u>

**NOTES TO CONDENSED INTERIM CONSOLIDATED  
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December 31, 2016

**9. 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.

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.

## **LGC Capital Limited**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

December 31, 2016

#### **9. FINANCIAL INSTRUMENTS [Cont'd]**

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 December 31, 2016, the Company had a total of \$ 206,649 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 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 December 31, 2016 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.

## LGC Capital Limited

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

December 31, 2016

#### 9. FINANCIAL INSTRUMENTS [Cont'd]

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 December 31, 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.

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 December 31, 2016 would have been as follows:

Fluctuation in foreign currency rate	Impact on total comprehensive income		
	CAD/GBP rate	CAD/USD Rate	CAD/AUD rate
	\$	\$	\$
+ 5%	16,500	14,900	228,500
- 5%	(16,500)	(14,900)	(228,500)

#### 10. 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.

#### 11. SUBSEQUENT EVENTS

During the period January 1, 2017 to February 27, 2017, the Company divested of 8,250,000 shares in Melbana at an average price of A\$0.022 for total proceeds of A\$181,649 (\$182,891), which resulted in a reduction of the Company's interest in Melbana from 13.81% on December 31, 2016 to 12.95% as at February 27, 2017 (note 6(b)).