CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended December 31, 2018 and 2017

(in Canadian dollars)

(Unaudited)

Esrey Resources Ltd.
(Unaudited)
December 31, 2018

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NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

Esrey Resources Ltd.

Unaudited condensed consolidated interim statements of financial position
(Expressed in Canadian dollars)

	Note		**December 31, 2018**		September 30, 2018
ASSETS					
Current assets					
Cash and cash equivalents	10(b)	**$**	**854,245**	$	1,210,003
Amounts receivable	4(d)		**332,087**		302,850
Prepaid expenses and deposits	11(a)(ii)		**74,281**		120,489
			1,260,613		1,633,342
Non-current assets					
Pilot plant and equipment	5		**2,358,355**		2,364,321
Deposit	15		**25,973**		25,973
Investment in joint venture			**114,157**		114,553
		$	**3,759,098**	$	4,138,189
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	4(d)	**$**	**1,036,448**	$	717,312
Loans payable	6		**240,540**		227,677
			1,276,988		944,989
Equity					
Share capital	7		**117,291,708**		117,291,708
Share purchase warrants	7(c)		**1,960,356**		1,960,356
Contributed surplus			**13,554,784**		13,552,623
Accumulated other comprehensive income			**268,908**		139,966
Non-controlling interest	8		**(296,573)**		(307,780)
Deficit			**(130,297,073)**		(129,443,673)
			2,482,110		3,193,200
		$	**3,759,098**	$	4,138,189

Going concern (Note 2(d))
Commitments (Note 15)
Contingencies (Notes 16)

Approved and authorized for issue by the Board on May 24, 2019.

(Signed) "Paul Larkin"
Director

(Signed) "Pablo Marcet"
Director

See the accompanying notes to these unaudited condensed consolidated interim financial statements.

Esrey Resources Ltd.

Unaudited condensed consolidated interim statements of loss and comprehensive loss
(Expressed in Canadian dollars, except per share amounts)

	Note		**Three months ended December 31, 2018**		Three months ended December 31, 2017
					(restated- Note 2(b))
Expenses:					
Project development costs			**367,769**		872,647
Property investigation costs			**-**		17,763
Depreciation			**151,607**		172,098
General and administrative expenses			**54,126**		57,363
Salaries and management fees			**220,061**		288,152
Legal, audit and accounting fees			**32,292**		80,869
Share-based payments	7(d)		**2,161**		175,748
Travel and business development			**-**		14,821
			(828,016)		(1,679,461)
Other income (expenses):					
Interest (expense) income			**1,260**		(71)
Other income			**3,624**		3,706
Loss from investment in joint venture			**(397)**		(393)
Foreign exchange gain (loss)			**(26,833)**		42,478
			(22,346)		45,720
Loss before income taxes			**(850,362)**		(1,633,741)
Income tax expense (recovery)			**-**		-
Net loss for the period		**$**	**(850,362)**	$	(1,633,741)
Attributable to:					
Non-controlling interest	8		**3,038**		27
Equity shareholders of the Company			**(853,400)**		(1,633,768)
		$	**(850,362)**	$	(1,633,741)
Other comprehensive loss					
Foreign currency translation attributed to non-controlling interest	8		**8,169**		1,031
Foreign currency translation for equity shareholders of the Company:			**128,942**		(23,222)
		$	**(713,251)**	$	(1,655,932)
Loss per share					
Basic and diluted attributable to equity shareholders of the Company	9	**$**	**(0.01)**	$	(0.02)

See the accompanying notes to the unaudited condensed consolidated interim financial statements.

Esrey Resources Ltd.

Unaudited condensed consolidated interim statements of changes in equity
(Expressed in Canadian dollars, except for share amounts)

	Note	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive (loss) income	Non-controlling interest	Deficit	Total equity
Balance, September 30, 2017		**79,525,540**	**$ 115,163,946**	**$ -**	**$ 13,325,274**	**$ 8,036,449**	**$ (293,966)**	**$ (126,006,099)**	**$ 10,225,604**
Share-based payments		-	-	-	175,748	-	-	-	175,748
Net loss for the period (restated)	2(b)	-	-	-	-	-	27	(1,633,768)	(1,633,741)
Foreign currency translation		-	-	-	-	(23,222)	1,031	-	(22,191)
Balance, December 31, 2017		**79,525,540**	**$ 115,163,946**	**$ -**	**$ 13,501,022**	**$ 8,013,227**	**$ (292,908)**	**$ (127,639,867)**	**$ 8,745,420**
Share-based payments	7(d)	-	-	-	112,688	-	-	-	112,688
Options exercised	7(d)	496,666	123,170	-	(61,087)	-	-	-	62,083
Private placement - Tranche 1	7(b),7(c)	12,725,000	1,286,068	1,258,932	-	-	-	-	2,545,000
Private placement - Tranche 2	7(b),7(c)	7,270,000	735,756	718,244	-	-	-	-	1,454,000
Shares issued for finder's fee	7(b),7(c)	158,100	16,000	15,620	-	-	-	-	31,620
Private placement - issue costs	7(b)	-	(33,233)	(32,440)	-	-	-	-	(65,672)
Net loss for the period		-	-	-	-	-	(13,205)	(1,803,806)	(1,817,011)
Foreign currency translation related to discontinued operations		-	-	-	-	(7,945,220)	-	-	(7,945,220)
Foreign currency translation related to continuing operations		-	-	-	-	71,959	(1,667)	-	70,292
Balance, September 30, 2018		**100,175,306**	**$ 117,291,708**	**$ 1,960,356**	**$ 13,552,623**	**$ 139,966**	**$ (307,780)**	**$ (129,443,673)**	**$ 3,193,200**
Share-based payments	7(d)	-	-	-	2,161	-	-	-	2,161
Net loss for the period		-	-	-	-	-	3,038	(853,400)	(850,362)
Foreign currency translation		-	-	-	-	128,942	8,169	-	137,111
Balance, December 31, 2018		**100,175,306**	**$ 117,291,708**	**$ 1,960,356**	**$ 13,554,784**	**$ 268,908**	**$ (296,573)**	**$ (130,297,073)**	**$ 2,482,110**

See the accompanying notes to the unaudited condensed consolidated interim financial statements.

Esrey Resources Ltd.

Unaudited condensed consolidated interim statements of cash flows
(Expressed in Canadian dollars)

	Note	**Three months ended December 31, 2018**	Three months ended December 31, 2017
			(restated- Note 2(b))
Operating activities			
Loss before income taxes		**$ (850,362)**	$ (1,633,741)
Adjustments to net loss for non-cash items			
Depreciation		**151,607**	172,098
Share-based payments	7(d)	**2,161**	175,748
Interest expense (income)		**(1,211)**	71
Miscellaneous income		**-**	(8,261)
Loss from investment in joint venture		**397**	393
Foreign exchange (gain) loss		**26,833**	(42,478)
Net changes in non-cash working capital items	10	**336,107**	(67,042)
		(334,468)	(1,403,212)
Adjustments to net loss for cash items			
Interest income received		**2,659**	678
Realized foreign exchange loss (gain)		**(2,143)**	42,881
		(333,952)	(1,359,653)
Investing activities:			
Expenditures on pilot plant	5, 11	**(30,152)**	(42,849)
		(30,152)	(42,849)
Financing activities:			
Loan repayment		**-**	(1,628,640)
		-	(1,628,640)
Foreign exchange effect on cash and cash equivalents		**8,346**	(61,673)
Net decrease in cash and cash equivalents		**(355,758)**	(3,092,815)
Cash and cash equivalents, beginning of the period		**1,210,003**	4,222,961
Cash and cash equivalents, end of the period		**$ 854,245**	$ 1,130,146

See the accompanying notes to the unaudited condensed consolidated interim financial statements.

1. Nature of operations

Esrey Resources Ltd. (the "Company" or "Esrey") was incorporated on February 24, 2000 in the Province of British Columbia, Canada and its common shares trade under the symbol "ESR" on the TSX Venture Exchange.

The Company is in the business of recovering zinc, lead and other metal by-products from primary and secondary waste materials. The Company has a pilot metal recovery plant in Macedonia which is currently focusing on developing a hydrometallurgical process to efficiently produce zinc and other metals from feed waste material on an economically viable scale. The Company was previously engaged in activities related to its oil and gas properties located primarily in Papua New Guinea.

The address of Esrey's registered office is Suite 1010, 1075 West Georgia Street, Vancouver, British Columbia, V6E 3C9.

2. Basis of presentation and going concern

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Reporting Standards Committee. They have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's consolidated financial statements for the year ended September 30, 2018.

The significant accounting policies applied in these financial statements are based on IFRS and outstanding policies as of May 24, 2019, the date the Board of Directors approved the financial statements.

(b) Comparative figures

Certain of the comparative figures for the three months ended December 31, 2017 have been restated to conform to the current period's presentation. At September 30, 2018, the Company determined that the majority of expenditures that was incurred at its pilot plant in Macedonia during the year ended September 30, 2018 should have been expensed as project development costs or property investigation costs rather than capitalized as pilot plant assets as previously reported in the Company's financial statements for the interim periods ended December 31, 2017, March 31, 2018 and June 30, 2018. As a result, the comparative figures for the three months ended December 31, 2017 were restated to reflect this change.

(c) Basis of measurement

These unaudited condensed consolidated interim financial statements have been prepared on an historical cost basis, and are presented in Canadian dollars, unless otherwise indicated.

The preparation of financial statements in accordance with IFRS requires management to make certain critical accounting estimates and exercise judgment in applying the Company's accounting policies. As a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period involves the use of estimates, which have been made using careful judgment. Actual results may differ from these estimates. The areas involving a higher degree of judgment, complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 of the Company's audited consolidated financial statements for the year ending September 30, 2018.

2. Basis of presentation and going concern (continued)

(d) Going concern

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

During the year ended September 30, 2018 and the three months ended December 31, 2018, the Company made modifications to its pilot metal recovery plant and focused the activities of the pilot plant on the recovery of zinc and other metals from zinc-containing feed material including electric arc furnace dust (“EAFD”) as EAFD is an ongoing by-product of the large scrap and recycle steel smelters and is therefore widely available globally. To process such feed material commercially, the Company plans to construct a full-scale zinc recovery plant.

As at December 31, 2018 and as of May 24, 2019, no feed stock has been secured primarily because the Company does not yet have operating permits for a commercial plant or a facility to store and process the EAFD. The Company is in the final stages of completing a study to evaluate options and potential capital costs and will require significant amounts of capital in order to build the plant, achieve commercial production, and produce zinc and other metals economically.

There can be no assurance that funding will be available to the Company when needed or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may not be able to develop its zinc operations, achieve commercial production, and produce zinc and other metals economically. Even if adequate funds are available, there is no guarantee that the Company will achieve commercial production to generate future cash flows. The Company presently does not have sufficient funds to fully develop its zinc operations, achieve commercial production, and produce zinc and other metals economically. As a result, material uncertainties exist that may cast significant doubt with respect to the Company’s ability to continue as a going concern.

Management believes the use of the going concern assumption is appropriate based upon the assumption that the Company will have sufficient cash resources to meet its ongoing obligations as they become due in the normal course of operations. The Company has successfully raised financing in the past and believes that it may be able to raise the necessary financing in the future.

These unaudited condensed consolidated interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Therefore, the Company may be required to realize its assets and discharge its liabilities in other than the normal course of business at amounts different from those reflected in the consolidated financial statements.

3. Significant accounting policies

The preparation of these unaudited condensed consolidated interim financial statements is based on accounting principles and practices consistent with those used in the preparation of the audited consolidated financial statements for the year ended September 30, 2018, amended, where applicable, by the adoption of the new amended accounting standards outlined below. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2018.

(a) Application of new and revised IFRS

The following accounting policies were adopted by the Company on October 1, 2018 and had no significant impact on the Company's financial position and results of operations:

(i) Amended standard IFRS 2, *Share-based Payments*
The amendments clarify the classification and measurement of share-based payment transactions.

(ii) New standard IFRS 9, *Financial Instruments – Classification and Measurement*
IFRS 9 is the first step in the process to replace IAS39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS39.

(iii) Amended standard IFRS 10, *Consolidated Financial Statements*
The amendments deal with the sale or contribution of assets between an investor and its associate or joint venture.

(iv) Amended standard IAS 28, *Investments in Associate and Joint Ventures*
The amendments to IAS 28 deal with the sale or contribution of assets between an investor and its associate or joint venture.

(v) New standard IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 provides guidance on how and when revenue from contracts with customers is to be recognized, along with new disclosure requirements in order to provide financial statement users with more information and relevant information.

(b) Future accounting pronouncements

The Company has not applied the following new and revised IFRSs that have been issued but are not yet adopted effective for the three months ended December 31, 2018 statements:

(i) New standard IFRS 16, Leases
IFRS 16 replaces existing lease accounting guidance. All leases will be required to be reported on the statement of financial position unless certain requirements for exclusion are met. Effective for annual periods commencing on or after January 1, 2019.

(ii) New standard IFRIC 23, *Uncertainty over Income Tax Treatments*
IFRIC 23 is a new standard that sets out to clarify the accounting for uncertainties in income taxes.

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

(Expressed in Canadian dollars)

4. Subsidiaries and joint ventures

(a) Subsidiaries

Name of subsidiary	Principal activity	Place of incorporation and operation(1)	Proportion of ownership interest and voting power held at December 31, 2018	September 30, 2018
LNG Energy (BC) Ltd. ("LNG BC")	Holding Company	BC	**100%**	100%
LNG Exploration Ltd. ("LNG Exploration")	Holding Company	BC	**100%**	100%
LNG Energy (PNG) Limited ("LNG PNG")	Holding Company	PNG	**100%**	100%
LNG Energy No. 2 Limited ("LNG No. 2")	Holding Company	PNG	**100%**	100%
Telemu No. 18 Limited ("Telemu")	Holding Company	PNG	**84.25%(2)**	84.25%
Basin Tishomingo Holdings Inc. ("BTH")	Holding Company	Delaware	**100%**	100%
EERL (BVI) Ltd. ("EERL BVI")	Holding Company	BVI	**100%**	100%
Evolution Petroleum Corporation ("EPC")	Holding Company	BVI	**100%**	100%
Esrey Zinc Holdings Ltd. ("EZH")	Holding Company	Barbados	**100%**	100%
Esrey Zinc Sales Ltd. ("EZS")	Holding Company	Barbados	**100%**	100%
Power Zinc Limited ("Power Zinc")	Holding Company	Malta	**100%**	100%
Esrey ZM Dooel ("EZM")	Operating Company	Macedonia	**100%(3)**	100%

(1) The following abbreviations have been used: British Columbia ("BC"), Papua New Guinea ("PNG"), British Virgin Islands ("BVI").
(2) The Company has a direct 68.5% ownership interest and holds an additional 15.75% through its interest in EERLHoldings (BVI) Ltd.
(3) In November 2017, the Company acquired EZM from PRG Plc. for total consideration of 5,000 euros. At the time of acquisition, EZM had 5,000 euros in cash and no other assets or liabilities on its balance sheet.

(b) Joint venture

Name of joint venture	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held on December 31, 2018	September 30, 2018
EERL Holdings (BVI) Ltd. ("EERL Holdings") (Note 4(c))	Holding Company	BVI	**50%**	50%

(c) EERL Holdings (BVI) Ltd.

As at December 31, 2018, the Company holds a 50% interest in EERL Holdings. The remaining 50% ownership is owned by a third party. EERL Holdings owns 31.5% of Telemu. As at September 30, 2018, the investment in EERL Holdings is $114,157 (September 30, 2018 – $114,553).

(d) Included in accounts receivable as at December 31, 2018 is $127,137 (September 30, 2018 - $98,350) in value-added tax receivable from the government of Macedonia and a US$100,000 (December 30, 2018 - $136,420; September 30, 2018 - $129,450) receivable from EERL Holdings to Telemu which is non-interest bearing and has no fixed date of repayment.

Included in accounts payable and accrued liabilities as at December 31, 2018 and September 30, 2018 is US$126,000 (December 31, 2018 - $171,889; September 30, 2018 - $163,107) payable from Telemu to EERL Holdings. The amount is non-interest bearing and has no fixed date of repayment.

(Expressed in Canadian dollars)

5. Pilot plant and equipment

	Pilot metal recovery plant	Office equipment and vehicles	Total
Cost			
Balance, September 30, 2017	$ 3,310,084	$ -	$ 3,310,084
Additions	78,162	12,334	90,496
Write-down of equipment	(453,151)	-	(453,151)
Foreign exchange movement	113,068	105	113,173
Balance, September 30, 2018	**$ 3,048,163**	**$ 12,439**	**$ 3,060,602**
Additions	30,152	-	30,152
Foreign exchange movement	148,713	670	149,383
Balance, December 31, 2018	**$ 3,227,028**	**$ 13,109**	**$ 3,240,137**
Accumulated depreciation			
Balance, September 30, 2017	$ -	$ -	$ -
Depreciation	690,743	-	690,743
Foreign exchange movement	5,538	-	5,538
Balance, September 30, 2018	**$ 696,281**	**$ -**	**$ 696,281**
Depreciation	150,972	635	151,607
Foreign exchange movement	33,873	21	33,894
Balance, December 31, 2018	**$ 881,126**	**$ 656**	**$ 881,782**
Carrying amount			
Carrying value at September 30, 2017	$ 3,310,084	$ -	$ 3,310,084
Carrying value at September 30, 2018	$ 2,351,882	$ 12,439	$ 2,364,321
Carrying value at December 31, 2018	**$ 2,345,902**	**$ 12,453**	**$ 2,358,355**

On July 21, 2017, the Company completed the acquisition of 100% of the shares of Power Zinc, a majority-owned subsidiary of PRG Plc. ("PRG"), a private Malta company at arm's length to the Company and its directors and officers at the time of the transaction (the "Acquisition"). As a result of the Acquisition, Ray Power, one of the principals and major shareholders of PRG became a director and a 10.2% shareholder of the Company on July 21, 2017. Mr. Power ceased to be a director on August 31, 2018 (see Note 11 – related party transactions).

The principal assets of Power Zinc included the contractual rights to the zinc Milosheve Stockpile Material (the "MSM") located in Kosovo and the construction in progress of a pilot metal recovery plant located in Macedonia. The MSM was written off during the year ended September 30, 2018.

As part of the arrangement with PRG, the Company verbally agreed with PRG that subsequent to the acquisition of Power Zinc, PRG would be contracted to complete the construction of the pilot metal recovery plant already under construction at a total construction cost of US$2,500,000 ($3,120,000) Note 15). The total cost of $3,310,084 (including capitalized stock-based payments of $190,084) was recorded as pilot metal recovery plant on the Company's statements of financial position as at September 30, 2017.

6. Loan payable

As at December 31, 2018, the Company's subsidiary, Telemu, has a loan payable due to EERL Holdings of $240,540 (September 30, 2018 - $227,677). The loan is denominated in US dollars (December 31, 2018 and September 30, 2018 – US$176,400), is non-interest bearing and has no fixed date of repayment.

7. Share capital

(a) Authorized

Unlimited number of common shares with no par value.

(b) Issuance of shares

Private Placement
On March 29, 2018, the Company closed the first tranche of a non-brokered private placement pursuant to which it issued 12,725,000 units at a price of $0.20 per unit for gross proceeds of $2,545,000. Each unit consists of one common share and one share purchase warrant. Each warrant gives the holder the right to acquire a further common share of the Company at a price of $0.40 for a term of five years. The securities were subject to a hold period expiring July 30, 2018.

On April 10, 2018, the Company closed the second and final tranche of the non-brokered private placement pursuant to which it issued 7,270,000 units at a price of $0.20 per unit for gross proceeds of $1,454,000. The Company also issued a finder's fee of 158,100 units to third party finders in connection with the closing of the second tranche. The securities issued were subject to a hold period expiring August 11, 2018.

Combined with the first tranche (but not including the finders' fee units), the Company issued an aggregate of 19,995,000 units for total gross proceeds of $3,999,000. On completion of the private placement, the Company had 101,175,306 shares issued and outstanding.

Share issue costs in connection with the private placement amounted to $65,672, of which $34,052 is comprised mainly of legal and regulatory fees, and the remaining $31,620 represents the fair value of the finder's fee 158,100 units as described above.

(Expressed in Canadian dollars)

7. Share capital (continued)

(c) Share purchase warrants

The following warrants are outstanding as at December 31, 2018 and September 30, 2018:

	December 31, 2018		September 30, 2018		
	Number of Warrants	**Average Exercise Price**	Number of Warrants	Average Exercise Price	Expiry Date
Balance, beginning of the period	20,153,100	$0.40	-	-	
Private Placement - March 29, 2018	-		12,725,000	$0.40	29-Mar-23
Private Placement - April 10, 2018	-		7,270,000	$0.40	10-Apr-23
Warrants issued as finders' fee	-		158,100	$0.40	10-Apr-23
Balance, end of the period	**20,153,100**	**$0.40**	**20,153,100**	**$0.40**	

In connection with the March 29, 2018 and April 10, 2018 private placements of units (Note 7(b)), 12,725,000 and 7,428,100 warrants were issued respectively. Each warrant gives the holder the right to acquire a further common share of the Company at a price of $0.40 for a term of five years. The expiry of the Warrants may however be accelerated at the election of the Company in circumstances where, at any time following 4 months from the issuance of the Warrants, the closing price of the Company’s shares on the TSX Venture Exchange is equal to or greater than $0.75 for 20 consecutive trading days. In such case, the Company may give notice to the holders of the Warrants that the Warrants will expire 30 days following such notice.

The fair value of the warrants issued is estimated at the time of the issue using the Black-Scholes pricing model with the following assumptions:

	April 10, 2018	**March 29, 2018**
Exercise price per warrant	$0.40	$0.40
Share price at date of issue	$0.21	$0.25
Expected life	5 years	5 years
Risk-free interest rate	2.03%	1.96%
Dividend yield	Nil	Nil
Expected volatility	211.54%	212.41%
Estimated fair value per warrant	$0.10	$0.10

Consideration received for the private placement units has been allocated between common shares and share purchase warrants on the relative fair value method.

(Expressed in Canadian dollars)

7. Share capital (continued)

(d) Share options

The changes in share options during the three months ended December 31, 2018 and the year ended September 30, 2018 were as follows:

	December 31, 2018		September 30, 2018	
	Number of Options	**Average Exercise Price**	Number of Options	Average Exercise Price
Balance, beginning of the period	5,043,500	$0.12	7,099,500	$0.11
Granted	-	-	640,000	$0.16
Exercised	-	-	(496,666)	$0.13
Forfeited	(1,025,000)	$0.13	(2,199,334)	$0.12
Balance, end of the period	**4,018,500**	**$0.12**	5,043,500	$0.12

On October 5, 2017, the Company granted 590,000 stock options to a director and a consultant of the Company exercisable at $0.15 per share and expiring on October 5, 2022. One-third of these options vested immediately, one-third vested on April 5, 2018, and one-third vested on October 5, 2018.

On March 1, 2018, the Company granted 50,000 stock options to an employee of the Company exercisable at $0.24 per share and expiring on March 1, 2023. One-third of these options vested immediately, one-third vested on September 1, 2018, and one-third vested on March 1, 2019.

The fair value of the options granted is estimated at the time of the grant using the Black-Scholes option pricing model with the following assumptions:

	March 1, 2018	**October 5, 2017**
Exercise price per option	$0.24	$0.15
Share price at date of grant	$0.24	$0.15
Expected life	5 years	5 years
Risk-free interest rate	1.99%	1.75%
Dividend yield	Nil	Nil
Expected volatility	212.92%	211.94%
Total fair value of options	$11,803	$86,991
Estimated fair value per option	$0.24	$0.15

During the three months ended December 31, 2018, 1,025,000 stock options were forfeited at an exercise price of $0.125.

(Expressed in Canadian dollars)

7. Share capital (continued)

(d) Share options (continued)

The following table summarizes information about outstanding and exercisable options at December 31, 2018.

Options outstanding	Options exercisable	Exercise Price	Expiry Date
639,500	639,500	$0.12	January 8, 2019
1,507,000	1,507,000	$0.095	April 2, 2020
1,232,000	1,232,000	$0.125	August 9, 2022
590,000	590,000	$0.15	October 5, 2022
50,000	33,333	$0.24	March 1, 2023
4,018,500	**4,001,833**		

The weighted average exercise price of options exercisable at December 31, 2018 is $0.12 per share (September 30, 2018 - $0.12 per share). The weighted average remaining life of exercisable options is 2.15 years (September 30, 2018 – 2.66 years).

(e) Share appreciation rights plan

On June 21, 2018, the Company's shareholders approved a share appreciation rights plan ("SARs Plan") which authorizes the directors of the Company to grant share appreciation rights ("SARs") to directors, officers, employees and consultants of the Company, excluding consultants performing investor relations activities.

Pursuant to a SAR agreement (the "SAR Agreement") a SAR gives the holder the right to receive from the Company a cash payout equal to the difference between the fair market value of the Company's common shares at the time of exercise (determined as the closing price of such shares on the trading day prior to exercise) and the dollar amount set out in the SAR Agreement, which amount shall be not less than the Discounted Market Price (as defined under the policies of the TSX Venture Exchange) of the Company's shares at the time the SAR Agreement is entered into.

The material terms of the SAR Plan include:

(i) the maximum term of a SAR is ten years from the date of the applicable SAR Agreement;

(ii) the maximum number of SARs that may be issued under the Plan at any time is 1,000,000 subject to increase with disinterested shareholder approval; and

(iii) the maximum number of SARs that can be granted to any one person in a 12 month period is a number equal to 1% of the then outstanding shares of the Company.

As at December 31, 2018 and May 24, 2019, no SARs have been granted by the Company.

(Expressed in Canadian dollars)

8. Non-controlling interest

The Company has an 84.25% interest in Telemu, an oil and gas company incorporated in PNG. 15.75% of Telemu's equity (deficiency) and total comprehensive loss is allocated to the non-controlling interest using the indirect method. The non-controlling interest is comprised of the following amounts:

Balance, September 30, 2017	**$**	**(293,966)**
Non-controlling interests' share of Telemu's loss		(13,178)
Foreign exchange translation		(636)
Balance, September 30, 2018	**$**	**(307,780)**
Non-controlling interests' share of Telemu's loss		3,038
Foreign exchange translation		8,169
Balance, December 31, 2018	**$**	**(296,573)**

9. Loss per share

The weighted average number of ordinary shares for the purposes of diluted loss per share reconciles to the weighted average number of ordinary shares used in the calculation of basic loss per share as follows:

		Three months ended December 31, 2018		Three months ended December 31, 2017
Weighted average number of ordinary shares		**100,175,306**		79,525,540
Effect of dilutive securities:				
Stock options		**-**		1,414,059
Diluted weighted average number of ordinary shares		**100,175,306**		80,939,599
Net loss attributable to equity shareholders	**$**	**(840,334)**	$	(1,633,768)
Loss per share - basic and diluted	**$**	**(0.01)**	$	(0.02)

As at December 31, 2018, the Company had 24,154,933 (September 30, 2018 – 22,948,934) potential ordinary shares that are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted loss per share.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options and share purchase warrants were based on quoted market prices for the periods during which the options and share purchase warrants were outstanding.

(Expressed in Canadian dollars)

10. Supplemental cash flow disclosure

(a) The following tables provide further information with regards to the changes in non-cash working capital disclosed in the statement of cash flows:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Amounts receivable	**$ (29,237)**	$ 287
Prepaid expenses and deposits	**46,208**	5,437
Accounts payable and accrued liabilities	**319,136**	(72,766)
Net changes in non-cash working capital items	**$ 336,107**	$ (67,042)

(b) At December 31, 2018, the Company had cash of $625,245 (September 30, 2018 – $612,003) and cash equivalents of $229,000 (September 30, 2018 – $598,000).

(c) Other non-cash transactions that occurred during the three months ended December 31, 2018 and 2017 are disclosed in Note 7.

11. Related party transactions

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Balances and transactions between the Company and its joint venture are disclosed in Notes 4 and 6. Details of the transactions between the Company and other related parties are disclosed below.

(a) Transactions

During the three months ended December 31, 2018 and 2017, the Company's related parties consisted of (a) private companies owned by executive officers and directors and (b) a private company owned by a family member of one of the Company's directors and (c) an entity partly owned and having a cost-sharing agreement with the Company (see (a)(ii)), as follows:

	Nature of transactions involved	**Relationship to the Company**
Maluti Services Limited	Management, general and administrative, and travel and business development	CEO
TRG Resources Ltd.	Management	Former CEO
Jazz Financial Ltd.	Management	CFO
Pangea Management Corp.	Consulting	Family member of CEO
Sterling West Management Ltd.	Management and general and administrative	See (ii) below
PRG Plc. ("PRG")(Note 5)	Construction and assembly of pilot metal recovery plant and project development costs	Director until August 31, 2018 (see (i) below) and significant shareholder

(Expressed in Canadian dollars)

11. Related party transactions (continued)

(a) Transactions (continued)

The Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors and their relatives.

	Not	**Three months ended December 31, 2018**	Three months ended December 31, 2017
Management fees	(ii)	**169,747**	166,468
General and administrative expenses	(ii)	**27,687**	36,529
Travel and business development		**-**	14,821
Consulting fees		**6,000**	6,000
Project development costs	(i)	**-**	715,686

(i) Effective October 1, 2017, the Company entered into a services contract with PRG ("PRG Services Contract") to make the necessary modifications to the pilot plant in order to get it fully operational and to assist the Company in designing a full scale hydro-metallurgical zinc processing plant. The fees for PRG's services under this arrangement were fixed at US$180,000 per month until March 31, 2018 and were reduced to approximately US$60,000 from April 1, 2018 and June 30, 2018. The contract was terminated on June 30, 2018.

During the three months ended December 31, 2017, the total fees pursuant to the PRG Services Contract amounted to US$540,000 ($686,610). In addition, the Company paid PRG $29,076 for external security services at the pilot plant, rent for using PRG's leased premises for the pilot plant and the laboratory, and the reimbursement of miscellaneous laboratory and pilot plant equipment and supplies which the Company requested PRG to purchase on its behalf.

(ii) The Company is party to a shareholders' cost-sharing agreement with certain other public and private companies (the "Other Companies") pursuant to which the Company and the Other Companies are equal shareholders in Sterling West Management Ltd. ("Sterling") and, through Sterling, share office space, furnishings, equipment and communications facilities (on a cost recovery basis) and the employment of various administrative, office and management personnel in Vancouver, British Columbia, Canada. Costs of the shared office facilities and the shared employees are recovered from the Company in proportion to the time spent by the shared employees on matters pertaining to the Company. During the three months ended December 31, 2018, the Company's share of management and overhead costs was $58,590 (three months ended December 31, 2017 - $65,824).

As at December 31, 2018, the amount owing to Sterling was $58,590 (September 30, 2018 – $30,100). As at December 31, 2018, the Company also has a $57,000 deposit with Sterling (September 30, 2018 – $57,000) which is included in prepaid expenses and deposits.

Effective October 1, 2018, the Company entered into a five-year lease commitment for its head office premises in Vancouver, British Columbia, Canada. As Sterling and the Other Companies share the premises with the Company, it is anticipated that a portion of the cost of the lease will be allocated to Sterling and the Other Companies as long as they continue to share the premises.

(Expressed in Canadian dollars)

11. Related party transactions (continued)

(b) Compensation of key management personnel

The remuneration of directors and other key members of management personnel during the three months ended December 31, 2018 and 2017 were as follows:

	Note		**Three months ended December 31, 2018**		Three months ended December 31, 2017
Remuneration	(i)		**138,843**	$	210,843
Directors' fees			**4,000**		5,500
Share-based payments	(ii)		**1,100**		85,481
		$	**143,943**	$	301,824

(i) Remuneration includes management fees disclosed in Note 11(a) which also includes a termination fee of $75,270 (US$60,000) paid to a former CEO of the Company.

(ii) Share-based payments are the fair value of options granted to key management personnel.

Except as disclosed under Note 11(b)(i) above, key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three months ended December 31, 2018 and 2017. Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at December 31, 2018 included directors' fees of $2,000 and $138,843 of remuneration to other key management personnel (September 30, 2018 - $Nil).

12. Segmented information

Geographic Information

The Company's assets by geographic areas as at December 31, 2018 and September 30, 2018 are as follows:

December 31, 2018

		Papua New Guinea		**Macedonia**		**Canada**		**Total**
Cash and cash equivalents	$	504,524	$	29,692	$	320,029	**$**	**854,245**
Other current assets		14,133		174,626		217,609		**406,368**
Property, plant and equipment		-		2,358,355		-		**2,358,355**
Long-term deposit		-		-		25,973		**25,973**
Investment in joint venture		-		-		114,157		**114,157**
	$	**518,657**	**$**	**2,562,673**	**$**	**677,768**	**$**	**3,759,098**

(Expressed in Canadian dollars)

12. Segmented information (continued)

September 30, 2018	Papua New Guinea	Macedonia	Canada	Total
Cash and cash equivalents	$ 481,778	$ 44,638	$ 683,587	$ 1,210,003
Other current assets	13,496	195,686	214,157	423,339
Property, plant and equipment	-	2,364,321		2,364,321
Long-term deposit	-	-	25,973	25,973
Investment in joint ventures	-	-	114,553	114,553
	$ 495,274	$ 2,604,645	$ 1,038,270	$ 4,138,189

The Company's expenses and income (loss) by geographic area for the three months ended December 31, 2018 and 2017 are as follows:

Three months ended December 31, 2018	**Papua New Guinea**	**United States**	**Macedonia**	**Barbados**	**Canada**	**Total**
Income (loss) from continuing operations	$ 8,124	$ 12,235	$ (666,767)	$ (150,406)	$ (53,548)	$ (850,362)
Income from discontinued operations	-	-	-	-	-	-
Net income (loss)	**$ 8,124**	**$ 12,235**	**$ (666,767)**	**$ (150,406)**	**$ (53,548)**	**$ (850,362)**
Attributable to						
Non-controlling interest	$ 3,038	$ -	$ -	$ -	$ -	$ 3,038
Equity shareholders of the Company	5,086	12,235	(666,767)	(150,406)	(53,548)	(853,400)
	$ 8,124	**$ 12,235**	**$ (666,767)**	**$ (150,406)**	**$ (53,548)**	**$ (850,362)**

Three months ended December 31, 2017	Papua New Guinea	United States	Macedonia	Barbados	Canada	Total
Net income (loss)	$ 6,717	$ 425	$ (325,924)	$ (857,762)	$ (457,197)	$ (2,795,144)
Attributable to						
Non-controlling interest	$ 27	$ -	$ -	$ -	$ -	$ 27
Equity shareholders of the Company	6,690	425	(325,924)	(857,762)	(457,197)	(1,633,768)
	$ 6,717	$ 425	$ (325,924)	$ (857,762)	$ (457,197)	$ (1,633,741)

13. Capital management

The Company manages, as capital, the components of shareholders' equity. The Company's objectives when managing capital are to (i) safeguard its ability to continue as a going concern in order to develop its zinc project and (ii) to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms, enter into joint venture arrangements on its zinc projects, or borrow, acquire or dispose of assets.

The Company's policy is to invest its cash in highly liquid, interest-bearing, fully guaranteed bank-sponsored instruments with maturities of a year or less from the date of acquisition. The Company is not subject to externally imposed capital requirements.

14. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and loans payable.

(a) Fair value estimation of financial instruments

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into a hierarchy based on the degree to which the fair value is observable. Level 1 fair value measurements are derived from unadjusted, quoted prices in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability directly or indirectly. Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The carrying amount for cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities on the statement of financial position approximate their fair value due to the short-term to maturities of these financial instruments.

The carrying amount for loans payable approximates its fair value due to the short-term to maturity of this financial instrument.

(Expressed in Canadian dollars)

14. Financial instruments (continued)

(b) Financial risk management

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity and funding risk, and market risk. There have been no substantive changes in the Company's exposure to financial instrument risk, the Company's objectives, policies and processes for managing those risks or the methods used to measure them from previous years.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The overall objective of the Board is to set policies that seek to reduce the Company's risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

(i) Credit risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk arises principally from the Company's cash and cash equivalents and amounts receivable. Cash and cash equivalents consist of cash on hand, deposits in major banks that are considered to be creditworthy, and highly liquid investments with an original maturity date of less than one year. Amounts receivable are comprised primarily of amounts due from a related party (Note 4(d)), GST receivables from the government of Canada and value-added tax receivables from the government of Macedonia. The carrying values of the financial assets represent the maximum credit exposure.

(ii) Liquidity and funding risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and cash equivalents, which are invested in business accounts and are available on demand.

Funding risk is the risk that the Company may not be able to raise financing in a timely manner and on terms acceptable to management. There is no assurance that such financing will be available when, and if, the Company requires additional financing (Note 2(d)).

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The following table summarizes the Company's significant remaining contractual maturities for financial liabilities at December 31, 2018 and September 30, 2018.

December 31, 2018

	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	**$ 1,036,448**	**$ -**	**$ 1,036,448**
Loan payable (Note 6)	**240,540**	**-**	**240,540**
Lease commitments (Notes 11 and 15)	**123,583**	**609,028**	**732,611**
Total	**$ 1,400,571**	**$ 609,028**	**$ 2,009,599**

(Expressed in Canadian dollars)

14. Financial instruments (continued)

(b) Financial risk management (continued)

(ii) Liquidity and funding risk (continued)

September 30, 2018

	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	$ 717,312	$ -	$ 717,312
Loan payable (Note 6)	$ 227,677		227,677
Lease commitments (Notes 11 and 15)	123,583	609,028	732,611
Total	$ 1,068,572	$ 609,028	$ 1,677,600

(iii) Market risk

The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

(1) Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. The Company has minimal exposure to interest rate fluctuations on its cash and cash equivalent balances due to current low market interest rates. The amounts due to related parties and the loans payable are non-interest bearing.

(2) Foreign currency risk

Some of the Company's cash, expenditures, loans and accounts payable are denominated in the US dollar, Papua New Guinea kina, Macedonian denar and European Euro. The Company's exposure to foreign currency risk arises primarily on fluctuations between the Canadian dollar and the US dollar, Papua New Guinea kina, Macedonian denar and European Euro. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

15. Commitments

On August 20, 2018, the Company entered into a five-year lease agreement for its head office premises in Vancouver, Canada, effective October 1, 2018. The annual minimum payments under this lease are as follows (Note 11(a)(ii)):

Year ending September 30,	$
2019	**123,583**
2020	**129,726**
2021	**156,906**
2022	**161,198**
2023	**161,198**
	732,611

15. Commitments (continued)

In connection with this lease, the Company has a $25,973 deposit with the landlord. This amount has been recorded as a "deposit" on the Company's consolidated statement of financial position as at December 31, 2018.

The Company also has sublease agreements for its pilot plant premises and its laboratory premises with PRG. Both sublease agreements are effective until June 30, 2020, but they can be terminated by either the Company or PRG with 30 days' written notice. The monthly amounts under the sublease agreements are 2,221 euros ($3,748) for the pilot plant and 30,467 Macedonian denars ($742) for the laboratory. These amounts have not been included in the table above because of the month-to-month nature of the expense and commitment.

16. Contingencies

Due to the nature of the Company's operations, various legal, tax, environmental and regulatory matters are outstanding from time to time. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

The Company is pursuing the recovery of a deposit paid in connection with the Company's investigation of a potential site for a future full-scale zinc processing plant (Note 6) through the legal system in Macedonia. The outcome of this matter is currently uncertain.

The Company has determined that not all necessary in-country legal agreements in Macedonia were completed in the transaction with PRG (Note 5) (the "Agreements") and the Company is currently in the process of finalizing these Agreements with PRG. These Agreements will also formalize the previously verbal agreement with PRG (Note 5) for PRG to complete the construction of the pilot metal recovery plant for the Company at a total construction cost consideration of US$2,500,000 ($3,120,000).

The Company believes that it retains title to all assets purchased from PRG on July 21, 2017 (including the pilot metal recovery plant construction in progress) and that it retains title to all subsequent work performed by PRG to construct the pilot metal recovery plant for the Company in 2017. As a result of preparing the Agreements, the Company identified that it is more likely than not that it owes value-added taxes payable of approximately $45,000 to PRG, which the Company has recorded in accrued liabilities as at September 30, 2018 and as at December 31, 2018. As the Company is entitled to reclaim VAT amounts paid, it has also recorded an equivalent amount in accounts receivable from the government of Macedonia as at December 31, 2018.

While the outcomes of these matters are uncertain, based upon the information currently available, the Company does not believe that these matters in aggregate will have a material adverse effect on its financial statements. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in its financial statements in the period in which such changes occur.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended December 31, 2018

The following Management's Discussion and Analysis ("MD&A") is intended to assist the reader to assess material changes in financial condition and results of operations of Esrey Resources Ltd. ("Esrey" or the "Company") as at and for the three months ended December 31, 2018 and 2017.

This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto as at and for the three months ended December 31, 2018 and the audited consolidated financial statements for the year ended September 30, 2018. These unaudited condensed consolidated interim financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board("IASB")..

All dollar amounts are expressed in Canadian dollars unless otherwise indicated. Note that additional information relating to the Company is available on SEDAR at www.sedar.com.

The effective date of this MD&A is May 24, 2019.

Contents of the MD&A

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1. Financial highlights for the three months ended December 31, 2018

- During the three months ended December 31, 2018, Esrey recorded a net loss attributable to equity shareholders of the Company of $853,400 ($0.01 per share), compared to a net loss attributable to equity shareholders of the Company of $1,633,768 ($0.02 per share) during the three months ended December 31, 2017.

- The Company spent $367,769 at its pilot metal recovery plant in Macedonia in the three months ended December 31, 2018 compared to $872,647 in the same period in 2017.

- At December 31, 2018, the Company had cash and cash equivalents of $854,245 compared to $1,210,003 at September 30, 2018.

2. Overview and operational update

The Company is in the business of recovering zinc, lead and other metal by-products from primary and secondary waste materials. The Company has a pilot metal recovery plant in Macedonia which is currently focusing on developing a hydrometallurgical process to efficiently produce zinc and other metals from feed waste material on an economically viable scale.

The Company was previously engaged in activities related to its oil and gas concessions located primarily in Papua New Guinea. The Company's shares trade on the TSX Venture Exchange under the symbol "ESR."

2.1 Pilot metal recovery plant (Macedonia)

The Company's pilot metal recovery plant, which includes a Company-owned laboratory to test plant samples, is located in Macedonia.

During the year ended September 30, 2018 and the three months ended December 31, 2018, the Company made modifications to its pilot metal recovery plant in order to get it fully operational and recorded these costs as project development costs in its statements of loss and comprehensive loss. The Company also focused the activities of the pilot plant on the recovery of zinc and other metals from zinc-containing feed material including electric arc furnace dust ("EAFD"). EAFD is an ongoing by-product of the large scrap and recycle steel smelters and is therefore widely available globally. To process such feed material commercially, the Company plans to construct a full-scale zinc recovery plant. As at December 31, 2018 and as of May 24, 2019, no feed stock has been secured primarily because the Company does not yet have operating permits for a commercial plant or a facility to store and process the EAFD.

The hydro-metallurgical process is currently in the final stages of development. International laboratories have been assisting the Company by fine tuning certain aspects of the Company's recovery technology. It is expected that successful piloting will, subject to the Company's ability to raise financing, lead to the construction of a full-scale commercial facility to process EAFD and other zinc and lead bearing wastes. The full-scale plant will be capable of producing London Metal Exchange ("LME") grade zinc, lead and other recovered metals and contribute to the cleanup of metallurgical wastes around the Balkans and other regions.

During the three months ended December 31, 2018, the Company spent $367,769 ($872,647 - three months ended December 31, 2017) in project development costs. The amount was higher in 2017 as the Company had entered into a services contract with PRG Plc., a company controlled by a former director of Esrey, to make the necessary modifications to the pilot plant in order to get it fully operational and to assist the Company in designing a full scale hydro-metallurgical zinc processing plant. The fees for PRG's services under this arrangement were fixed at US$180,000 per month from October 1, 2017 through March 31, 2018 and were reduced to approximately US$60,000 between April 1, 2018 and June 30, 2018. The contract was formally terminated on June 30, 2018. See Section 9.1 of this MD&A for more details on the services contract. Prior to the termination of the services contract, the Company hired its own operations personnel and consultants to take over the work that PRG had been doing up until June 30, 2018.

2.2 Future location for commercial plant

Over the past 15 months, the Company has been investigating various industrial sites in Macedonia for a suitable location for the Company's proposed full scale hydro-metallurgical zinc processing plant. During the three months ended December 31, 2018, the Company incurred $nil in property investigation costs compared to $17,763 in the same period in 2017.

During the year ended September 30, 2018, property investigation costs included 250,000 euros ($382,135) which the Company paid as a non-refundable deposit for the purchase of a parcel of land in Macedonia. The purchase transaction was not successfully consummated as a result of circumstances within the control of the seller. As a result, the Company believes that it has a claim for the refund of the deposit and is seeking to recover the deposit from the seller.

3. Results of operations

The review of the results of operations should be read in conjunction with the Company's audited consolidated financial statements and related notes for the three months ended December 31, 2018.

The table below sets forth selected results of operations for the Company for the three months ended December 31, 2018 and 2017:

		Three months ended December 31, 2018		Three months ended December 31, 2017
		(unaudited)		(unaudited) (Restated - see Note 1)
Expenses				
Project development costs		**367,769**		872,647
Property investigation costs		**-**		17,763
Depreciation		**151,607**		172,098
General and administrative expenses		**54,126**		57,363
Salaries and management fees		**220,061**		288,152
Legal, audit and accounting fees		**32,292**		80,869
Share-based payments		**2,161**		175,748
Travel and business development		**-**		14,821
		(828,016)		(1,679,461)
Other income (expense)				
Interest (expense) income		**1,260**		(71)
Other income		**3,624**		3,706
Loss from investment in joint ventures		**(397)**		(393)
Foreign exchange gain (loss)		**(26,833)**		42,478
Loss for the period before tax		**(850,362)**		(1,633,741)
Income tax expense (recovery)		**-**		-
Net loss	**$**	**(850,362)**	$	(1,633,741)
Attributable to:				
Non-controlling interest		**3,038**		27
Equity shareholders of the Company		**(853,400)**		(1,633,768)
	$	**(850,362)**	$	(1,633,741)
Basic and diluted loss per share	**$**	**(0.01)**	$	(0.02)
Consolidated statements of financial position		**December 31, 2018**		September 30, 2018
Total assets	**$**	**3,759,098**	$	4,138,189
Total liabilities	**$**	**1,276,988**	$	944,989

Note 1: Certain of the comparative figures for the three months ended December 31, 2017 have been restated to conform to the current period's presentation. At September 30, 2018, the Company determined that the majority of expenditures that was incurred at its pilot plant in Macedonia during the year ended September 30, 2018 should have been expensed as project development costs or property investigation costs rather than capitalized as pilot plant assets as previously reported in the Company's financial statements for the interim periods ended December 31, 2017, March 31, 2018 and June 30, 2018. As a result, the comparative figures for the three months ended December 31, 2017 were restated to reflect this change.

3.1 Results of operations for the three months ended December 31, 2018 and 2017

During the three months ended December 31, 2018 ("Q1-2019"), the Company reported a net loss attributable to equity shareholders of the Company of $853,400 compared to a net loss of $1,633,768 for the three months ended December 31, 2017 ("Q1-2018"). The Company's net loss decreased by $780,368 between Q1-2019 and Q1-2018 primarily due to the following:

- Project development costs of $367,769 in Q1-2019 compared to $872,647 in Q1-2018 as described in Section 2.1 above ;
- Property investigation costs of $17,763 in Q1-2018 as discussed in Section 2.2 above;
- Depreciation of $151,607 was lower compared to $172,098 in Q1-2018 as some equipment was written off during the quarter ended September 30, 2018;
- A decrease in salaries and management fees by $68,091 during Q1-2019 as a result of termination fees paid to David Nelson, the Company's former President & CEO who resigned on October 5, 2017;
- Share-based payments of $2,161 compared to $175,748 in Q1-2018 due to the recognition of options that were granted during the year ended September 30, 2017 and in Q1-2018 and due to the forfeiture of certain of these options during the three months ended September 30, 2018; and
- A foreign exchange loss of $26,833 in Q1-2019 compared to a foreign exchange gain of $42,478 in Q1-2018.

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4. Selected annual and quarterly information

Selected annual information

The table below summarizes the Company's three most recently completed years (in Canadian dollars, except for per share amounts):

	Years ended September 30,		
	2018	**2017**	**2016**
		(Note 1)	
Project development costs	$ (2,943,845)	$ -	$ -
Property investigation costs	(540,425)	-	-
Write-down of stockpile material rights	(4,969,701)	-	-
Write-down of equipment	(453,151)	(18,456)	
Other expenses	(2,556,353)	(1,204,673)	(1,225,258)
Loss from continuing operations	(11,395,972)	(1,342,905)	(1,427,067)
Income (loss) from discontinued operations	7,945,220	(2,889,392)	-
Net loss	(3,450,752)	(4,232,297)	(1,427,067)
Basic and diluted loss per share attributable to equity shareholders of the Company	$ (0.04)	$ (0.09)	$ (0.03)
Basic and diluted loss per share attributable to equity shareholders of the Company - continuing operations	$ (0.12)	$ (0.03)	$ (0.03)
Total assets	$ 4,138,189	$ 12,845,169	$ 10,249,212
Non-current financial liabilities	$ -	$ -	$ -

<u>Selected quarterly information (unaudited)</u>

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

	Dec 31, 2018	**Sep 30, 2018**	**Jun 30, 2018**	**Mar 31, 2018**	**Dec 31, 2017**	**Sep 30, 2017** *(Note 1)*	**Jun 30, 2017**	**Mar 31, 2017**
Project development costs *(Note 2)*	$ (368)	$ (369)	$ (718)	$ (984)	$ (873)	$ -	$ -	$ -
Property investigation costs *(Note 2)*	-	(435)	(29)	(58)	(18)	-	-	-
Write-down of stockpile material rights	-	(4,970)	-	-	-	-	-	-
Write-down of equipment	-	(453)				(18)		
Income (loss) from continuing operations	(850)	(6,669)	(1,322)	(1,771)	(1,634)	(767)	(323)	(338)
Income (loss) from discontinued operations		7,945	-	-	-	(2,889)	-	-
Net (loss) income	(850)	1,276	(1,322)	(1,771)	(1,634)	(3,656)	(323)	(338)
Basic and diluted (loss) income per share attributable to equity shareholders of the Company	$ (0.01)	$ 0.01	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.01)	$ (0.01)
Basic and diluted (loss) income per share attributable to equity shareholders of the Company - continuing operations	$ (0.01)	$ (0.07)	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)
Weighted average number of shares (millions)	101	101	101	83	81	72	40	40

Note 1: Write-down of exploration and evaluation assets of $2,889,392 during the year ended September 30, 2017 has been reclassified to income (loss) from discontinued operations to conform to the current year's presentation.

Note 2: Project development costs and property investigation costs have been restated to conform to the current period's presentation. At September 30, 2018, the Company determined that the majority of expenditures that was incurred at its pilot plant in Macedonia during the year ended September 30, 2018 should have been expensed as project development costs or property investigation costs rather than capitalized as pilot plant assets as previously reported in the Company's financial statements for the interim periods ended December 31, 2017, March 31, 2018 and June 30, 2018. As a result, the comparative figures for the three months ended December 31, 2017 and subsequent quarters were restated to reflect this change.

5. Liquidity, going concern and capital resources

5.1 Liquidity and going concern

As at December 31, 2018, the Company had cash and cash equivalents of $854,245 (September 30, 2018 - $1,210,003) and working capital deficit of $16,375 (September 30, 2018 – working capital of $688,353). Cash and cash equivalents decreased by $355,758 during the three months ended December 31, 2018 as funds were spent primarily on project development costs in Macedonia.

During the year ended September 30, 2018 and the three months ended December 31, 2018, the Company made modifications to its pilot metal recovery plant and focused the activities of the pilot plant on the recovery of zinc and other metals from feed material called EAFD as EAFD is widely available globally. To process such feed material commercially, the Company plans to construct a full-scale zinc recovery plant. However, the Company will require significant amounts of capital in order to secure land, build the plant and achieve commercial production, and produce zinc and other metals economically.

There can be no assurance that funding will be available to the Company when needed or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may not be able to develop its zinc operations, achieve commercial production, and produce zinc and other metals economically. Even if adequate funds are available, there is no guarantee that the Company will achieve commercial production to generate future cash flows. Although the Company raised gross proceeds of $3,999,000 in 2018, the Company does not have sufficient funds to fully develop its zinc operations, achieve commercial production and produce zinc and other metals economically. As a result, material uncertainties exist that may cast significant doubt with respect to the Company's ability to continue as a going concern.

In addition to the development of the Company's zinc operations, the Company has commitments and contingencies which could have a future effect on its liquidity. Effective October 1, 2018, the Company has a five-year lease commitment for its Canadian head office premises (see Sections 9.1(ii) and 10.4 of this MD&A and Note 15 of the condensed consolidated interim financial statements for the three months ended December 31, 2018). The Company also has number of outstanding legal matters in Macedonia, including the resolution of documentation and agreements with PRG in connection with the pilot metal recovery plant which could result in potential Macedonian value-added tax payments and recoveries.

5.2 Share Capital

On October 5, 2017, the Company granted 590,000 stock options to a director and a consultant of the Company. The options are subject to certain vesting provisions and are exercisable over five years at an exercise price of $0.15 per share.

On March 1, 2018, the Company granted 50,000 stock options to an employee of the Company. The options are subject to certain vesting provisions and are exercisable over five years at an exercise price of $0.24 per share.

On March 29, 2018, the Company closed the first tranche of a non-brokered private placement pursuant to which it issued 12,725,000 units at a price of $0.20 per unit for gross proceeds of $2,545,000.

On April 10, 2018, the Company closed the second and final tranche of the private placement pursuant to which it issued 7,270,000 units at a price of $0.20 per unit for gross proceeds of $1,454,000. The Company also issued a finder's fee of 158,100 units to third party finders in connection with the closing of the second tranche.

Combined with the first tranche (but not including the finders' fee units), the Company issued an aggregate of 19,995,000 units for total gross proceeds of $3,999,000. Each unit of the private placement consists of one common share and one share purchase warrant. Each warrant gives the holder the right to acquire a further common share of the Company at a price of $0.40 for a term of five years.

On June 21, 2018, the Company's shareholders approved a share appreciation rights plan ("SARs Plan") which authorizes the directors of the Company to grant SARs to directors, officers, employees and consultants of the Company, excluding consultants performing investor relations activities. Pursuant to a SAR agreement (the "SAR Agreement"), a SAR gives the holder the right to receive from the Company a cash payout equal to the difference between the fair market value of the Company's common shares at the time of exercise (determined as the closing price of such shares on the trading day prior to exercise) and the dollar amount set out in the SAR Agreement, which amount shall be not less than the Discounted Market Price (as defined under the policies of the TSX Venture Exchange).of the Company's shares at the time the SAR Agreement is entered into. The material terms of the SAR Plan are disclosed in Note 7(e) of the Company's condensed consolidated interim financial statements for the three months ended December 31, 2018.

During the three months ended December 31, 2018, 1,025,000 stock options were forfeited at an exercise price of $0.125. No options were granted, exercised or expired during the three months ended December 31, 2018.

Following the issuance and expiry of the above options, the Company has a total of 4,018,500 options outstanding pursuant to its stock option plan, which represent approximately 5% of the issued and outstanding common shares of the Company.

As at December 31, 2018 and as at May 24, 2019, the Company had 100,175,306 shares issued and outstanding and the following options outstanding and exercisable:

As at December 31, 2018		As at May 23, 2019			
Options outstanding	**Options exercisable**	**Options outstanding**	**Options exercisable**	**Exercise price**	**Expiry date**
639,500	639,500	-	-	$0.120	January 8, 2019
1,507,000	1,507,000	1,507,000	1,507,000	$0.095	April 2, 2020
1,232,000	1,232,000	1,232,000	1,232,000	$0.125	August 9, 2022
590,000	590,000	590,000	590,000	$0.15	October 5, 2022
50,000	33,333	50,000	50,000	$0.24	March 1, 2023
4,018,500	**4,001,833**	**3,379,000**	**3,379,000**		

As at December 31, 2018 and as at May 24, 2019, the Company had the following warrants outstanding and exercisable:

Warrants outstanding and exercisable	Exercise price	Expiry date
12,725,000	$0.40	March 29, 2023
7,428,100	$0.40	April 10, 2023
20,153,100		

6. Risk factors

An investment in the shares of the Company should be considered speculative due to the nature of the business of the Company, and involves significant risks which should be carefully considered by prospective investors. In addition to the other information set forth elsewhere in this MD&A, the following risk factors should be given special consideration when evaluating trends, risks and uncertainties relating to the Company’s business, more particularly its zinc projects. Any of the following risks could have a materially adverse effect upon the Company, its business and future prospects. In addition, other risks and uncertainties not presently known by management of the Company could impair the Company's business in the future.

6.1 General

The Company’s projects involve a degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The Company is subject to a variety of risks, many of which are outside the Company’s control. Management has identified certain key risks, which are discussed below, along with their potential impact on the Company’s operations. There is no assurance that the Company will achieve commercial production on its zinc projects.

6.2 Foreign operations

The Company expects that its zinc projects will take place principally in Macedonia and other neighbouring Balkan countries for the foreseeable future. As such, the Company's operations are subject to a number of risks over which it has no control. These risks may include risks related to economic, social or political instability or change, terrorism, hyperinflation, currency non-convertibility or instability, changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, and export licensing and export duties. The Company endeavours to operate in such a manner in order to minimize and mitigate its exposure to these risks. However, there can be no assurance that the Company will be successful in protecting itself from the impact of all of these risks.

6.3 Political risks

The Company's current focus is on its pilot metal recovery plant located in Macedonia. Operations in Macedonia are subject to risks due to the potential for social, political, economic, legal and fiscal instability. The governments in Macedonia and in neighbouring countries which may affect Macedonia face ongoing issues such as inflation, unemployment and inequitable income distributions. Such instability may impact the Company's operations on its properties as future political actions, which may adversely affect the Company, cannot be predicted. Future operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, obtaining and maintenance of licenses, environmental legislation, land use, land claims of local people, and water use. Changes, if any, in foreign investment policies or shifts in political attitudes in the Balkans may adversely affect the Company's operations or profitability.

Failure to comply strictly with applicable laws, regulations and local practices relating to the Company's zinc assets could result in loss, reduction or expropriation of entitlements. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's consolidated results of operations and financial condition.

6.4 Fluctuations in the prices of zinc and other metals

The prices of zinc and other metals have fluctuated widely during recent years and are determined by various factors outside the Company's control, including supply and demand, general economic conditions, inflation, political instability, government regulation and taxes, and changes in global production of such metals. Such fluctuations will have a positive or negative effect on any revenue that the Company may receive in the future. If zinc and other metal prices become depressed or decline, the Company's potential revenue and earnings and the value of its assets would be expected to decline.

6.5 Foreign exchange rates and foreign exchange controls

The operations of the Company in Macedonia or any of the countries in which the Company may operate in the future are subject to currency fluctuations against the Canadian dollar, the US dollar, the Euro and the Macedonian denar, and such fluctuations may materially affect the financial position and results of the Company.

The Company may be subject from time to time to foreign exchange controls in Macedonia and other countries in which it may operate outside of Canada.

6.6 Repatriation of earnings

There is no assurance that Macedonia or any of the countries in which the Company may operate in the future will not impose restrictions on the repatriation of earnings to foreign entities.

6.7 Environmental and other governmental regulations

The current and future operations of the Company, including development activities, construction and commercial production of its zinc and metals projects, may require permits from various state and local governmental authorities. Such operations are and will be governed by laws and regulations governing development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. The Company may experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. The Company believes it is currently in substantial compliance with all material laws and regulations that currently apply to its activities, particularly those in Macedonia where it has a pilot metal recovery plant. There can be no assurance, however, that all permits which the Company may require for the conduct of its operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in the imposition of fines or issuance of clean up orders in respect of the Company or its projects. Such legislation may be changed to impose higher standards and potentially more costly obligations. The Company endeavours to operate in such a manner to ensure it conforms to the standards and government regulations required for each jurisdiction in which it operates.

6.8 Dependence on key personnel

The business of the Company is highly dependent on the technical and financial ability of the Company's management. The Company has a small management team and any change in management of the Company could therefore have a negative effect on the business of the Company as it may not be successful in attracting suitably qualified personnel in the future. The Company does not have key person insurance in place.

6.9 Additional financing

To the extent that external sources of capital, including the issuance of additional common shares, become limited or unavailable, the Company's ability to make necessary capital investments to construct its proposed full scale hydrometallurgical zinc processing plant will be impaired.

6.10 Price volatility of public stock and shares reserved for future issuance

Publicly quoted securities are subject to a relatively high degree of price volatility. It may be anticipated that the quoted market for the common shares of the Company will be subject to market trends generally, notwithstanding any potential success of the Company's projects, and there may be significant fluctuations in the price of the Company's common shares.

The Company has reserved shares for issuance in respect of stock options and warrants granted to date. The Company may also enter into commitments in the future which could result in the issuance of additional common shares or the consolidation of its current outstanding share capital, and the Company may also grant share purchase warrants and additional stock options. Any issue of shares reserved for future issuance may result in dilution to the existing shareholdings.

6.11 Legal matters

Due to the nature of the Company's business, various legal matters are outstanding from time to time. The Company currently has a number of outstanding legal matters in Macedonia including the recovery of a deposit in connection with the Company's investigation of a potential site for a future full scale zinc processing plant, and the resolution of documentation and agreements with PRG in connection with the pilot metal recovery plant which could result in potential Macedonian value-added tax payments and recoveries. In the event that these matters are not resolved in the Company's favour, the Company's cash flow could be negatively impacted.

6.12 Conflicts of interest

Some of the directors and officers of the Company are, or may be, on the boards of other natural resource companies from time to time resulting in conflicts of interests. Some are also considered related parties. Therefore, there is the potential for a conflict of interest between the Company and some of its directors and officers. The Company requires its directors and officers to notify management and the board if they are aware of any conflicts.

6.13 Uninsurable risks

In the course of mineral production, certain risks, and in particular, unexpected or unusual operating conditions including, fires, flooding and earthquakes may occur. It is not always possible to fully insure against such risks and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons, or the amounts of its insurance may not be sufficient to fully insure against risks covered by insurance. Should liabilities arise as a result of insufficient insurance or uninsured risks, they could reduce or eliminate any future profitability and result in increased costs and a decline in the value of the securities of the Company.

6.14 General economic conditions

There has been a high level of volatility in the world financial markets over the past few years. This volatility has caused investors to become less willing to provide debt or equity financing to most companies and in particular to junior resource companies. This could potentially make completing financings for the Company difficult in the foreseeable future.

7. Off-balance sheet transactions

As at December 31, 2018 and May 24, 2019, the Company did not have any off-balance sheet arrangements.

8. Proposed transactions and subsequent events

There are no proposed transactions or reportable subsequent events during the period from December 31, 2018 through May 24, 2019.

9. Transactions between related parties

9.1 Transactions

The Company's related parties consist of (a) private companies owned by executive officers and directors and (b) a private company owned by a family member of one of the Company's directors and (c) an entity partly owned and having a cost-sharing agreement with the Company (see (a)(ii)), as follows:

	Nature of transactions involved	**Relationship to the Company**
Maluti Services Limited ("Maluti")	Management, general and administrative, and travel and business development	CEO
TRG Resources Ltd.	Management	Former CEO
Jazz Financial Ltd. ("Jazz")	Management	CFO
Pangea Management Corp.	Consulting	Family member of CEO
Sterling West Management Ltd.	Management and general and administrative	See (ii) below
PRG Plc.	Construction and assembly of pilot metal recovery plant and project development costs	Director until August 31, 2018 (see (i) below) and significant shareholder

The Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors and their relatives.

		Three months ended December 31,	
		2018	2017
Management fees	(ii)	**$ 169,747**	$ 166,468
General and administrative expenses	(ii)	**27,687**	36,529
Travel and business development		**-**	14,821
Consulting fees		**6,000**	6,000
Project development costs	(i)	**-**	715,686

(i) Effective October 1, 2017, the Company entered into a services contract with PRG ("PRG Services Contract") to make the necessary modifications to the pilot plant in order to get it fully operational and to assist the Company in designing a full scale hydro-metallurgical zinc processing plant. The fees for PRG's services under this arrangement were fixed at US$180,000 per month until March 31, 2018 and were reduced to approximately US$60,000 between April 1, 2018 and June 30, 2018. The contract was terminated on June 30, 2018.

During the three months ended December 31, 2017, the total fees pursuant to the PRG Services Contract amounted to US$540,000 ($686,610). In addition, the Company paid PRG $29,076 for external security services at the pilot plant, rent for using PRG's leased premises for the pilot plant and the laboratory, and the reimbursement of miscellaneous laboratory and pilot plant equipment and supplies which the Company requested PRG to purchase on its behalf.

(ii) The Company is party to a shareholders' cost-sharing agreement with certain other public and private companies (the "Other Companies") pursuant to which the Company and the Other Companies are equal shareholders in Sterling West Management Ltd. ("Sterling") and, through Sterling, share office space, furnishings, equipment and communications facilities (on a cost recovery basis) and the employment of various administrative, office and management personnel in Vancouver, British Columbia, Canada. Costs of the shared office facilities and the shared employees are recovered from the Company in proportion to the time spent by the shared employees on matters pertaining to the Company. During the three months ended December 31, 2018, the Company's share of management and overhead costs was $58,590 (three months ended December 31, 2017 – $65,824 and year ended September 30, 2018 – $288,280).

As at December 31, 2018, the amount owing to Sterling was $58,590 (September 30, 2018 – $30,100). As at December 31, 2018, the Company had a deposit of $57,000 with Sterling (September 30, 2018 – $57,000).

Effective October 1, 2018, the Company entered into a five-year lease commitment for its head office premises in Vancouver, British Columbia, Canada. As Sterling and the Other Companies share the premises with the Company, it is anticipated that a portion of the cost of the lease will be allocated to Sterling and the Other Companies as long as they continue to share the premises.

9.2 Compensation of key management personnel

The remuneration of members of key management personnel during the three months ended December 31, 2018 and 2017 was as follows:

		Three months ended December 31, 2018	2017
Remuneration	(i)	**$ 138,843**	$ 210,843
Director's fees		**4,000**	5,500
Share-based payments	(ii)	**1,100**	85,481
		$ 143,943	$ 301,824

(i) Remuneration includes management fees disclosed in section 9.1 above, which includes remuneration paid to a former CEO through his private company. Remuneration in the three months ended December 31, 2018 also included a termination fee of $75,270 (US$60,000) paid to a former CEO of the Company.

(ii) Share based payments are the fair value of options granted to key management personnel.

The services of the Company's CEO and CFO are provided pursuant to management services contracts with Maluti and Jazz, respectively. Under the terms of these contracts, in the event of termination without cause, as defined by these contracts, Maluti and Jazz are entitled to termination payments of US$240,000 ($327,408) and US$180,000 ($245,556), respectively.

Except as disclosed under note 9.2 (i) above, key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three months ended December 31, 2018 and 2017. Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at December 31, 2018 included directors' fees of $2,000 and $138,843 of remuneration to other key management personnel (September 30, 2018 – $nil and $nil respectively).

10. Financial instruments

The Company’s financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities, and loans payable.

10.1 Fair value of financial instruments

The carrying amount for cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities on the statement of financial position approximate their fair value due to the short-term to maturities of these financial instruments.

The carrying amount for loans payable approximates its fair value due to the short-term to maturity of this financial instrument.

10.2 Financial risk management

The Company’s financial instruments are exposed to certain financial risks, including credit risk, liquidity and funding risk, and market risk. There have been no substantive changes in the Company’s exposure to financial instrument risk, the Company’s objectives, policies and processes for managing those risks or the methods used to measure them from previous years.

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The overall objective of the Board is to set policies that seek to reduce the Company’s risk as far as possible without unduly affecting the Company’s competitiveness and flexibility. Further details regarding these policies are set out below.

10.3 Credit risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company’s credit risk arises principally from the Company’s cash and cash equivalents and amounts receivable. Cash and cash equivalents consist of cash on hand, deposits in major banks that are considered to be creditworthy, and highly liquid investments with an original maturity date of less than one year. Amounts receivable are comprised primarily of amounts due from a related party, GST receivables from the government of Canada and value-added tax receivables from the government of Macedonia. The carrying values of the financial assets represent the maximum credit exposure.

10.4 Liquidity and funding risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company’s holdings of cash and cash equivalents. The Company’s cash is invested in business accounts and is available on demand.

Funding risk is the risk that the Company may not be able to raise equity financing in a timely manner and on terms acceptable to management. There is no assurance that such financing will be available when, and if, the Company requires additional equity financing.

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The following table summarizes the Company's significant remaining contractual maturities for financial liabilities as at December 31, 2018:

	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	$ 1,036,448	$ -	$ 1,036,448
Loans payable	240,540	-	240,540
Lease commitments	123,583	609,028	732,611
Total	$ 1,400,571	$ 609,028	$ 2,009,599

In connection with this lease, the Company has a $25,973 deposit with the landlord. This deposit has been recorded as other deposit on the Company's consolidated statement of financial position as at December 31, 2018.

The Company also has sublease agreements for its pilot plant premises and its laboratory premises with PRG Plc. Both sublease agreements are effective until June 30, 2020, but they can be terminated by either the Company or PRG Plc. with 30 days' written notice. The monthly amounts under the sublease agreements are 2,221 euros ($3,748) for the pilot plant and 30,467 Macedonian denars ($742) for the laboratory. These amounts have not been included in the table above because of the month-to-month nature of the expense.

10.5 Market risk

The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

Interest rate risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates of the Company's financial instruments. The Company has minimal exposure to interest rate fluctuations on its cash and cash equivalent balances due to current low market interest rates.

Foreign currency risk

Some of the Company's cash, expenditures, loans and accounts payable are denominated in US dollars, Papua New Guinea kina, Macedonian denar and European euro. The Company's exposure to foreign currency risk arises primarily on fluctuations between the Canadian dollar and the US dollar, Papua New Guinea kina, Macedonian denar and European Euro. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

11. Adoption of accounting standards and pronouncements under IFRS

11.1 Application of new and revised IFRSs

The following accounting policies were adopted by the Company on October 1, 2018 and had no significant impact on the Company's financial position and results of operations:

(i) Amended standard IFRS 2, Share-based Payments
The amendments clarify the classification and measurement of share-based payment transactions.

(ii) New standard IFRS 9, Financial Instruments – Classification and Measurement
IFRS 9 is the first step in the process to replace IAS39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS39.

(iii) Amended standard IFRS 10, Consolidated Financial Statements
The amendments deal with the sale or contribution of assets between an investor and its associate or joint venture.

(iv) Amended standard IAS 28, Investments in Associate and Joint Ventures
The amendments to IAS 28 deal with the sale or contribution of assets between an investor and its associate or joint venture.

(v) New standard IFRS 15, Revenue from Contracts with Customers
IFRS 15 provides guidance on how and when revenue from contracts with customers is to be recognized, along with new disclosure requirements in order to provide financial statement users with more information and relevant information.

11.2 Accounting standards issued but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet adopted effective for the three months ended December 31, 2018 statements:

(i) New standard IFRS 16, Leases
IFRS 16 replaces existing lease accounting guidance. All leases will be required to be reported on the statement of financial position unless certain requirements for exclusion are met. Effective for annual periods commencing on or after January 1, 2019.

(ii) New standard IFRIC 23, Uncertainty over Income Tax Treatments
IFRIC 23 is a new standard that sets out to clarify the accounting for uncertainties in income taxes.

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

12. Critical accounting estimates and critical accounting judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, revenue and expenses. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in net income (loss) and/or comprehensive income (loss) in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Judgments and estimates made by management in the application of IFRS that have a significant effect on the financial statements are discussed below.

Critical accounting estimates

Share based payments

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

Critical accounting judgements

(a) Stockpile material rights

The application of the Company's accounting policy for stockpile material rights requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available.

(b) Project development costs

Project development costs are capitalized when the Company can demonstrate that certain criteria are all met. The accounting policy requires management to make certain estimates and assumptions as to future events and circumstances, including judgments about technical feasibility, whether it is likely that future economic benefits will flow to the Company, and the availability of adequate technical, financial and other resources to complete the development, which may be based on assumptions about future events or circumstances. These estimates and assumptions may change as new information becomes available.

(c) Estimation of useful life of the pilot plant

The Company determines the estimated useful lives and related depreciation for its pilot plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

(d) Impairment of assets

Significant judgment is exercised in connection with the assessment of whether exploration and evaluation assets, stockpile material rights, and the pilot metal recovery plant and equipment are impaired, including the determination of and allocation of assets to CGUs for the purposes of impairment testing. The determination of CGUs requires judgment when determining the lowest level for which there are separately identifiable cash inflows generated by the asset category. The application of the Company's accounting policies requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. At each balance sheet date, management reviews whether events or circumstances have occurred to indicate that the carrying amounts of the Company's long-lived assets with finite useful lives may be less than their recoverable amounts. Underlying assumptions used in this assessment are influenced by industry conditions, economic uncertainty and management's intention at the point of assessment. Judgment used in determining whether an asset or asset group is impaired, the recoverable amount of an asset or CGU may affect the amount of the impairment loss to be recorded to an asset or CGU, as well as the potential reversal of the impairment charge in the future.

(e) Business combinations

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset may require the Company to make certain judgements as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 – Business Combinations. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business. Based on an assessment of the relevant facts and circumstances, the Company concluded that the acquisition of Power Zinc on July 21, 2017 did not meet the definition of a business and the transaction has been accounted for as an asset acquisition.

(f) Determination of control of subsidiaries and joint arrangements

Judgement is required to determine when the Company has control of subsidiaries or joint control of joint arrangements. This requires an assessment of the relevant activities of the investee, being those activities that significantly affect the investee's returns, including operating and capital expenditure decision-making, financing of the investee, and the appointment, remuneration and termination of key management personnel; and when the decisions in relation to those activities are under the control of the Company or require unanimous consent from the investors. Judgement is also required when determining the classification of a joint arrangement as a joint venture or a joint operation through an evaluation of the rights and obligations arising from the arrangement. Changes to the Company's access to those rights and obligations may change the classification of that joint arrangement. Based on assessment of the relevant facts and circumstances, primarily, the requirement for unanimous agreement on management decisions relating to the financing and operation of the arrangement, the Company concluded that EERL Holdings met the criteria to be classified as a joint venture.

(g) Assets held for sale and discontinued operations

The Company applies judgement to determine whether an asset or disposal group is available for immediate sale in its present condition and that its sale is highly probable and therefore should be classified as held for sale at the balance sheet date. Conditions that support a highly probable sale include the following: an appropriate level of management is committed to a plan to sell the asset or disposal group, an active program to locate a buyer and complete the plan has been initiated, the asset or disposal group has been actively marketed for sale at a price that is reasonable in relation to its current fair value, and the sale of the asset or disposal group is expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

The Company also applies judgement to determine whether a component of the Company that either has been disposed of or is classified as held for sale meets the criteria of a discontinued operation. The key area that involves management judgement in this determination is whether the component represents a separate major line of business or geographical area of operation.

(h) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the applicable tax laws in the jurisdictions in which the Company operates. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. However, the final outcome may result in a materially different outcome.

In determining its current and deferred tax provisions, the Company must apply judgment when interpreting and applying complex and changing tax laws and regulations. The determination of the appropriate application of these laws and regulations by tax authorities may remain uncertain for several years. The final outcome of such determination could result in amounts different from those initially recorded and would impact current or deferred tax expense in the period in which a determination is made. The determination of deferred tax asset recognition also requires judgment regarding the Company's ability to more likely than not utilize that asset.

(i) Determination of cash generating units ("CGUs")

A CGU is defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, similar exposure to market risks, shared infrastructures, and the way in which management monitors the operations.

(j) Functional currency

The Company's functional currency is based on the primary economic environment in which it operates and is based on an analysis of several factors including which currency principally affects sales prices of products sold by the Company, which currency influences the main expenses of providing services, in which currency the Company keeps its receipts from operating activities and in which currency the Company has received financing. Management used its judgment to assess these factors.

(k) Disposal of an entity

The Company has exited from certain foreign regions where it has conducted oil and gas activities and has wound up certain subsidiaries and withdrawn from joint ventures related with these activities. The Company considers the disposal of an entity for accounting for the related OCI to be when the oil and gas activities have substantively ceased, the operations are inactive, and there are no immediate plans to recommence activities. At such time, the Company considers it has realized its investment in these foreign operations and that the operations have been in substance liquidated, even if the formal process of liquidating the legal body in which the foreign operation was carried on had not occurred at that time. During the year ended September 30, 2018, the Company determined that, as its oil and gas activities in PNG had substantially ceased, its operations were inactive and that it did not intend to conduct any further activities in Papua New Guinea. Consequently, the Company wrote off the OCI related to all of its remaining PNG oil and gas concessions.

(l) Contingencies

Due to the nature of the Company's operations, various legal, tax, environmental and regulatory matters are outstanding from time to time. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

The Company is pursuing the recovery of a deposit paid in connection with the Company's investigation of a potential site for a future full-scale zinc processing plant through the legal system in Macedonia. The outcome of this matter is currently uncertain.

The Company has determined that not all necessary in-country legal agreements in Macedonia were completed in the transaction with PRG and the Company is currently in the process of finalizing these agreements with PRG. The Company has been advised by its legal and tax advisors that the maximum value-added tax exposure that could result in the finalization of these agreements is US$34,811 ($45,063), for which the Company has recorded a provision within accrued liabilities as at September 30, 2018 and as at December 31, 2018.

While the outcomes of these matters are uncertain, based upon the information currently available, the Company does not believe that these matters in aggregate will have a material adverse effect on its financial statements. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in its financial statements in the period in which such changes occur.

13. Limitations of controls and procedures

The Company's President & CEO and the Chief Financial Officer believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, the Company's management cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. Inherent limitations include flawed decision making or simple errors. Controls can also be circumvented by individual acts of some persons, by collusion of two or more people or by unauthorized override of the control.

The design of any control system is also based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. The Company's officers are not required to certify the design and evaluation of the Company's disclosure controls and procedures and internal controls over financial reporting and have not completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective basis disclosure controls and procedures and internal controls over financial reporting for the Company may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

14. Cautionary statement on forward-looking information

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. Forward-looking information typically contains statements with words such as "anticipate", "believe", "plan", "continuous", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements pertaining to the following:

- Physical properties of the stockpile material, including grades and volumes;
- Pilot metal recovery plant, including expected useful life;
- Future location for a commercial plant;
- Environmental permitting;
- Capital expenditures; and
- Sources of funding.

Undue reliance should not be placed on forward-looking statements, which are inherently uncertain, are based on estimates and assumptions, and are subject to known and unknown risks and uncertainties (both general and specific) that contribute to the possibility that the future events or circumstances contemplated by the forward-looking statements will not in fact be realized. Actual results will differ, and the difference may be material and adverse to the Company and its shareholders.

Risk factors affecting future results include, but are not limited to: financing risks, price volatility of the Company's stock, prices of zinc and other metals, dependence on key personnel, uninsurable risks, conflicts of interest, and risks of operating in foreign countries, including political risk, government regulation, environmental risks, exchange controls and variations in exchange rates.

Forward-looking statements are based on the Company's current beliefs as well as assumptions made by, and information currently available to, the Company concerning anticipated financial performance, business prospects, strategies, regulatory developments, the impact of increasing competition, and the ability to obtain financing on acceptable terms. Although management considers these assumptions to be reasonable based on information currently available, they may prove to be incorrect.

Certain of the forward-looking statements in this MD&A may constitute "financial outlooks" as contemplated by National Instrument 51-102 Disclosure Obligations, including information related to projected revenues, expenses, capital expenditures for 2019 and future years, which are provided for the purpose of forecasting the financial position of the Company. Please be advised that the financial outlook in this MD&A may not be appropriate for purposes other than the one stated above.

The forward-looking statements contained in this MD&A are made as of the date thereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, except as required by applicable law. The forward-looking statements contained herein are expressly qualified by this cautionary statement.