esrey
ENERGY LTD

(Formerly LNG Energy Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013 and 2012

(In Canadian dollars)

KPMG LLP
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Esrey Energy Ltd. (formerly "LNG Energy Ltd.")

We have audited the accompanying consolidated financial statements of Esrey Energy Ltd., which comprise the consolidated statements of financial position as at September 30, 2013 and 2012, the consolidated statements of loss and comprehensive (loss) income, changes in shareholders' equity and cash flows for the years ended September 30, 2013 and 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at September 30, 2013 and September 30, 2012, and its consolidated financial performance and its consolidated cash flows for the years ended September 30, 2013 and 2012 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 (c) in the consolidated financial statements which describes that the Company will be required to spend significant capital on its exploration and

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evaluation projects in order to meet the work commitments dictated by the terms of the concessions, determine whether commercially economical reserves exist and, if commercially economical reserves exist, to further develop the properties. As a result, the Company will be required to raise capital or seek other alternatives such as farm-in arrangements or the sale of properties in order to generate this capital. The Company presently does not have sufficient funds to develop all of its existing properties and to continue with ongoing operations. These conditions, along with other matters as set forth in note 2(c) in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Esrey Energy Ltd.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants
January 27, 2014
Calgary, Canada

Esrey Energy Ltd.
(Formerly LNG Energy Ltd.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at	
(in Canadian dollars)	**September 30, 2013**	September 30, 2012
ASSETS		
Current		
Cash and cash equivalents	**$ 7,477,341**	$ 798,327
Amounts receivable	**542,407**	337,149
Prepaid expenses and other deposits	**450,448**	452,267
	8,470,196	1,587,743
Exploration and evaluation assets (Note 6)	**15,538,612**	23,217,868
Property, plant and equipment (Note 7)	**144,785**	194,732
Restricted cash (Note 6)	**1,554,113**	-
Total Assets	**$ 25,707,706**	$ 25,000,343
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 1,008,005**	$ 947,764
Decommissioning obligations (Note 9)	**52,965**	-
Loans payable (Note 10b)	**181,899**	**-**
	1,242,869	947,764
Loans payable (Note 10a)	**5,752,725**	5,122,848
Decommissioning obligations (Note 9)	**58,251**	38,186
Total Liabilities	**7,053,845**	6,108,798
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	**106,790,751**	103,211,241
Contributed surplus (Note 11d)	**12,729,232**	12,397,169
Accumulated other comprehensive income	**6,670,019**	7,455,396
Non-controlling interest (Notes 5 and 12)	**572,530**	-
Deficit	**(108,108,671)**	(104,172,261)
Total Shareholders' Equity	**18,653,861**	18,891,545
Total Liabilities and Shareholders' Equity	**$ 25,707,706**	$ 25,000,343

Going Concern (Note 2c); Subsequent events (Note 19)

These consolidated financial statements were approved for issue by the Board of Directors on January 24, 2014 and are signed on its behalf by:

(Signed) "Paul Larkin"
Director

(Signed) "David Cohen"
Director

See accompanying notes to these consolidated financial statements.

Esrey Energy Ltd.
(Formerly LNG Energy Ltd.)

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE (LOSS) INCOME

	For the years ended September 30,	
(in Canadian dollars)	**2013**	2012
Expenses:		
Depreciation (Note 7)	**$ 33,029**	$ 46,245
General and administrative expenses	**1,051,959**	2,161,126
Professional fees	**1,310,008**	1,925,217
Stock based compensation (Note 11d)	**115,741**	138,831
Travel and business development	**199,789**	474,874
Loss on investment	**-**	5,243
Write-down of property, plant and equipment (Note 7)	**3,347**	-
Write-down of exploration and evaluation assets (Note 6)	**7,921,658**	54,548,680
	(10,635,531)	(59,300,216)
Other income (expenses):		
Accretion expense (Note 9)	**(4,816)**	(366)
Interest expense (Note 10a)	**(475,324)**	(181,955)
Gain on acquisition of Enterprise (Note 5)	**6,517,113**	-
Write-down of advances	**-**	(27,996)
Foreign exchange gain (loss)	**377,729**	(174,461)
Interest income	**40,032**	36,766
	6,454,734	(348,012)
Loss for the year before tax and discontinuing operations	**$ (4,180,797)**	$ (59,648,228)
Income tax expense (Note 15)	**-**	(33,039)
Loss from continuing operations	**$ (4,180,797)**	$ (59,681,267)
Loss from discontinued operations	**-**	(70,972)
Net loss for the year	**$ (4,180,797)**	$ (59,752,239)
Attributable to:		
Non-controlling interest (Note 12)	**$ (244,387)**	$ -
Equity shareholders of the Company	**(3,936,410)**	(59,752,239)
	$ (4,180,797)	$ (59,752,239)
Other comprehensive (loss) income:		
Foreign currency translation loss attributed to non-controlling interest	**$ (99,991)**	$ -
Foreign currency translation (loss) gain for equity shareholders of the Company	**(785,377)**	2,470,555
	(885,368)	2,470,555
Comprehensive loss for the year	**$ (5,066,165)**	$ (57,281,684)
Loss per share: (Note 11b)		
Basic and diluted from continuing operations	**$ (0.23)**	$ (3.52)
Basic and diluted from discontinued operations	**$ -**	$ (0.01)
Basic and diluted	**$ (0.23)**	$ (3.53)

See accompanying notes to these consolidated financial statements.

Esrey Energy Ltd.
(Formerly LNG Energy Ltd.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in Canadian dollars, except for share amounts)	Number of shares (after consolidation - see Note 19)	Share capital	Contributed surplus	Accumulated other comprehensive income	Non-controlling interest	Deficit	Total shareholders' equity
Balance, September 30, 2011	**16,925,968**	**$ 103,055,103**	**$ 12,073,436**	**$ 4,984,841**	**$ -**	**$ (44,420,022)**	**$ 75,693,358**
Stock based compensation	-	-	459,104	-	-	-	459,104
Shares issued upon exercise of options	10,000	155,371	(135,371)	-		-	20,000
Share issue costs	-	767	-	-	-	-	767
Net loss for the year	-	-	-	-	-	(59,752,239)	(59,752,239)
Foreign currency translation	-	-	-	2,470,555	-	-	2,470,555
Balance, September 30, 2012	**16,935,968**	**$ 103,211,241**	**$ 12,397,169**	**$ 7,455,396**	**$ -**	**$ (104,172,261)**	**$ 18,891,545**
Stock based compensation	-	-	181,063	-	-	-	181,063
Shares issued on the acquisition of Enterprise (Note 5)	11,931,702	3,579,510	151,000	-	-	-	3,730,510
Non-controlling interest	-	-	-	-	916,908	-	916,908
Net loss for the year	-	-	-	-	(244,387)	(3,936,410)	(4,180,797)
Foreign currency translation	-	-	-	(785,377)	(99,991)	-	(885,368)
Balance, September 30, 2013	**28,867,670**	**$ 106,790,751**	**$ 12,729,232**	**$ 6,670,019**	**$ 572,530**	**$ (108,108,671)**	**$ 18,653,861**

On November 18, 2013, the Company enacted a twenty for one share consolidation. All current comparative references to the number of shares, options, weighted average number of common shares and loss per share have been restated to the twenty for one share consolidation. See Note 19.

See accompanying notes to these consolidated financial statements.

Esrey Energy Ltd.
(Formerly LNG Energy Ltd.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended September 30,	
(in Canadian dollars)	**2013**	2012
Operating activities:		
Net loss	**$ (4,180,797)**	$ (59,752,239)
Items not affecting cash:		
Depreciation (Note 7)	**33,029**	46,245
Accretion expense (Note 9)	**4,816**	366
Stock based compensation (Note 11d)	**115,741**	138,831
Interest expense (Note 10)	**377,081**	181,955
Interest income	**(40,032)**	(36,766)
Tax expense	**-**	33,039
Write-down of advances	**-**	27,996
Write-down of property, plant and equipment (Note 7)	**3,347**	-
Write-down of exploration and evaluation assets (Note 6)	**7,921,658**	54,548,680
Unrealized foreign exchange (gain) loss	**(216,663)**	52,571
Unrealized loss on investment	**-**	5,243
Gain on acquisition of Enterprise (Note 5)	**(6,517,113)**	-
	(2,498,933)	(4,754,079)
Changes in non-cash working capital (Note 14)	**(590,696)**	(738,230)
Interest received	**40,032**	36,766
Taxes paid	**-**	(33,039)
	(3,049,597)	(5,488,582)
Financing activities:		
Proceeds from stock option exercises	**-**	20,000
Proceeds from loan (Note 10)	**-**	4,992,500
Repayment of loan (Note 10b)	**(2,166,353)**	-
	(2,166,353)	5,012,500
Investing activities:		
Exploration and evaluation expenditures (Note 6)	**(3,772,596)**	(14,303,708)
Proceeds from sale of Telemu shares (Note 6)	**3,938,400**	-
Cash acquired on the acquisition of Enterprise (Note 5)	**3,763,688**	-
Proceeds from farm-in (Note 6)	**7,522,079**	-
Property, plant and equipment additions	**(277)**	(4,798)
Change in non-cash working capital (Note 14)	**447,498**	(4,916,839)
	11,898,792	(19,225,345)
Foreign exchange effect on cash and cash equivalents	**(3,828)**	(10,913)
Net increase (decrease) in cash and cash equivalents	**6,679,014**	(19,712,340)
Cash and cash equivalents, beginning of year	**798,327**	20,510,667
Cash and cash equivalents, end of year	**$ 7,477,341**	$ 798,327

See accompanying notes to these consolidated financial statements.

1. NATURE OF OPERATIONS

Esrey Energy Ltd. (the “Company” or "Esrey") was incorporated on February 24, 2000 in the Province of British Columbia and changed its name from LNG Energy Ltd. to Esrey Energy Ltd. on November 13, 2013. The Company’s common shares trade under the symbol “EEL” on the TSX Venture Exchange. The Company is engaged in exploration activities on its oil and gas properties in Papua New Guinea, Poland, United States and Bulgaria. The address of Esrey's registered office is Suite 250, 1075 West Georgia Street, Vancouver, British Columbia, V6E 3C9.

2. BASIS OF PRESENTATION

a) Statement of compliance

These audited consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

These audited consolidated financial statements were authorized for issuance by the Board of Directors on January 24, 2014.

b) Basis of measurement

These audited consolidated 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 audited consolidated financial statements for a period necessarily 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.

c) 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.

The Company continues to be in the exploration stage and therefore has generated no revenues to date from its existing properties. The Company will be required to spend significant capital on its exploration and evaluation projects in order to meet the work commitments dictated by the terms of the concessions, determine whether commercially economical reserves exist and, if commercially economical reserves exist, to further develop the properties. As a result, the Company will be required to raise capital or seek other alternatives such as farm-in arrangements or the sale of properties in order to generate this capital. There can be no assurance that funding will be available to the Company when needed or, if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may not be able to further develop its exploration and evaluation projects.

2. BASIS OF PRESENTATION (continued)

c) Going concern (continued)

Even if adequate funds are available, there is no guarantee that the Company will meet the work commitments dictated by the terms of the concessions (see note 6). If the Company does not meet the work commitments dictated by the terms of a concession and is not able to obtain an amendment or extension, the Company risks losing the concession altogether. Whether the Company meets the work commitments of a concession or not, there is no guarantee that the Company will discover commercially economical reserves or, if commercially economical reserves are found, there is no guarantee that the Company will be able to further develop its properties. The Company presently does not have sufficient funds to develop all of its existing properties and to continue with ongoing operations. As a result, material uncertainties exist with respect to the recovery of costs previously spent on capital projects and the ability to find, develop and produce oil and natural gas reserves. In turn, significant doubt may exist with respect to the Company's ability to continue as a going concern.

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

These consolidated 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 accompanying consolidated financial statements.

3. SIGNIFICANT ACCOUNTING PRINCIPLES

The Company's principal accounting policies have been outlined below.

a) Consolidation principles

These consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases. Assets, liabilities, revenues and expenses of the Company's subsidiaries have been recognized in accordance with the Company's accounting policies listed below. Intercompany transactions have been eliminated upon consolidation.

b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the acquisition date) of assets given, liabilities incurred, and equity instruments issued by the Company in exchange for control of the acquiree. Any costs attributable to the business combination are generally recognized in earnings or loss as incurred.

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

b) Business combinations (continued)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognized at their fair values at the date of acquisition. If the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognized immediately in earnings or loss as a gain on acquisition.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

c) Details of the group

(i) Subsidiaries and jointly controlled entities

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

These financial statements presented are those of Esrey Energy Ltd. and the financial statements of its 100% owned subsidiaries LNG Energy US Inc. ("LNG US"), LNG Energy (BC) Ltd. ("LNG BC"), LNG Exploration Ltd. ("LNG Exploration"), Kunagu Real Estate S.A. ("Kunagu"), Kaynes Capital S.a.r.l. ("Kaynes"), LNG Energy (PNG) Limited ("LNG PNG"), LNG Energy No. 2 Limited ("LNG No. 2), Basin Tishomingo Holdings Inc. ("BTH"), BWB Exploration LLC ("BWB"), EERL (BVI) Ltd. ("EERL BVI"), Evolution Petroleum Corporation ("EPC"), Evolution Oil Group, LLC ("EVO"), Enterprise Bakken Holdings Ltd. ("EER Bakken"), MPR Finance S.a.r.l ("MPR"), FOZ Finance S.a.r.l. ("FOZ"), EERL Energy Inc. ("EERL Energy"), and EERL Energy Limited Partnership ("EERL Partnership"). These consolidated financial statements also include the proportionate consolidation of the Company's 50% owned subsidiaries Joyce Podlasie LLC ("Joyce") and Maryani Podlasie LLC ("Maryani") which each own 100% of Joyce Investment Sp. z.o.o. ("Joyce Investments") and Maryani Investments Sp z.o.o. ("Maryani Investments"), respectively. These consolidated financial statements also include a 50% interest in EERL Holdings (BVI) Ltd. ("EERL Holdings"), which is accounted for proportionately. LNG BC, along with EERL Holdings, collectively own an 84.25% interest in Telemu No. 18 Limited ("Telemu"), and as at September 30, 2013, Kaynes holds a 20.18% interest in Saponis Investments Sp. z.o.o. ("Saponis"), which the Company proportionately consolidates. All intercompany balances and transactions have been eliminated upon consolidation.

(ii) Jointly controlled operations and jointly controlled assets

Many of the Company's oil and natural gas activities involve jointly controlled assets. The financial statements include the Company's proportionate share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

d) Foreign currency translation

Functional and presentation currency
The Company's presentation currency is the Canadian dollar ("$"). Several of Esrey's subsidiaries transact in currencies other than the Canadian dollar. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. The Company has subsidiaries where the functional currency has been determined to be the United States Dollar, Papua New Guinea Kina and Polish Zloty. Translation of all assets and liabilities from the respective functional currencies to the reporting currency is performed using the rates prevailing at the date of the reporting period. The differences arising upon translation from the functional currency to the reporting currency are recorded as foreign currency translation adjustment in other comprehensive income ("OCI") and are held within OCI until a subsidiary is disposed or partially disposed. A disposal will then give rise to a realized foreign exchange gain or loss which is recorded in earnings or loss.

Foreign currency transactions
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in earnings and loss.

e) Financial instruments

Financial Assets
All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss.

Financial assets classified as held to maturity or loans and receivables are measured at amortized cost. Cash and amounts receivable are classified as loans and receivables. No assets are classified as held to maturity.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are not temporary. At September 30, 2013 the Company has an investment in a management service entity classified as available for sale. This investment is recorded on a cost basis which represents its fair value.

Transaction costs associated with assets recognized as fair value through profit or loss are expensed as incurred. Transaction costs associated with all other financial assets are included in the initial carrying amount of the asset. As at September 30, 2013, the Company does not have any financial assets classified as fair value through profit or loss.

Financial Liabilities
All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities. Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and current liabilities are classified as other financial liabilities.

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

f) Cash and cash equivalents

Cash and cash equivalents consist of cash bank deposits and interest bearing savings accounts.

g) Exploration and evaluation of assets and property, plant and equipment

Exploration and evaluation assets includes capitalized costs related to the exploration and evaluation expenditures, assets under construction and capitalized costs related to the oil and gas licenses.

Exploration and evaluation assets

Pre-license expenditures
Pre-license expenditures are expensed in the period in which they are incurred.

License and property acquisition expenditures
Exploration license and leasehold property acquisition expenditures are intangible assets that are capitalized as exploration and evaluation costs and are reviewed at each reporting date for indications of potential impairment. Once proved reserves are discovered, technical feasibility and commercial viability are established and the Company has decided to proceed with development, this capitalized expenditure is transferred to developed and producing assets under property, plant and equipment. If indicators of impairment are present, the asset’s recoverable amount is estimated. If the carrying value exceeds recoverable amount, an impairment is recorded.

Other exploration and evaluation expenditures
Other exploration and evaluation costs, including drilling costs directly attributable to an identifiable well, are initially capitalized as an intangible asset until evaluation activities of the exploration play are completed. If hydrocarbons are not found in commercial quantities, the costs are expensed. If hydrocarbons are found and are likely to be capable of commercial development, the costs continue to be capitalized. These costs are reviewed quarterly for indications of potential impairment. Capitalized costs are transferred to developed and producing assets within property, plant and equipment after assessing the estimated fair value of the property and recognizing any potential impairment loss. Geological and geophysical costs and annual lease rental costs are expensed as incurred.

Producing oil and gas properties
Depreciation, depletion, amortization and impairment
Unproven property costs and major projects under construction or development are not depreciated or depleted until commercial production commences.

The Company reviews the useful lives of capitalized costs for producing oil and gas properties to determine the appropriate method of amortization. The Company depletes oil and gas capitalized costs using the unit-of-production method. Development drilling, equipment costs and other facility costs are depleted over remaining proved developed reserves. Other facilities, plant and equipment which have significantly different useful lives than the associated proved reserves are depreciated in accordance with the asset’s future use.

Depreciation methods, useful lives and residual values are reviewed annually, with any amendments considered to be a change in estimate accounted for prospectively.

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

g) Exploration and evaluation of assets and property, plant and equipment (continued)

Impairment

Each reporting date, the Company assesses whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less any costs to sell or value-in-use. Where an asset does not generate separately identifiable cash flows, we perform an impairment test on CGUs which are the smallest grouping of assets that generate independent, identifiable cash inflows. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered to be impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by external valuation metrics or other available fair value indicators wherever possible.

In assessing the carrying values of the Company's unproved properties, the Company takes into account future plans for those properties, the remaining terms of the leases and any other factors that may be indicators of potential impairment.

For assets, an assessment is made each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, an estimate of the asset's or CGU's recoverable amount is completed. A previously recognized impairment loss is reversed only when the events or circumstance that triggered the original impairment have changed. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

Property, plant and equipment

Computer equipment and office furniture are stated at historical cost less depreciation and, where necessary, write-downs for impairment. Depreciation is calculated using the following rates and methods:

Office furniture and equipment	15% double declining
Vehicles	30% double declining
Computer equipment and software	15% - 50% double declining
Technical licenses	Straight line over 10 years

h) Other provisions

Provisions are recognized for liabilities of uncertain timing or an amount that has arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

h) Other provisions (continued)

Decommissioning obligations
The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with dismantling, decommissioning and site disturbance re-mediation activities. The net present value of future decommissioning cost estimates is capitalized to exploration and evaluation assets along with a corresponding increase in the decommissioning obligation in the period incurred. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases or decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

i) Income taxes

Income tax expense is comprised of current and deferred income taxes. Current and deferred income taxes are recognized in earnings or loss, except for income taxes relating to items recognized directly in equity or other comprehensive income.

Current income tax, if any, is the expected amount payable or receivable on the taxable income or loss for the year, calculated in accordance with applicable taxation laws and regulations, using income tax rates enacted or substantively enacted at the end of the reporting period and any adjustments to amounts payable or receivable relating to previous years.

Deferred income taxes are provided using the asset and liability method based on temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using income tax rates and income tax laws and regulations that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that do not affect accounting or taxable profit;
- goodwill; and
- investment in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

i) Income taxes (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

j) Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the earnings (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common shares. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. When potentially dilutive securities are anti-dilutive, there is no difference between basic and diluted earnings (loss) per share.

k) Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income (loss) that are excluded from net earnings (loss).

l) Share-based payments

The fair value, measured at the grant date, of equity-settled share-based payments is charged to income or loss over the period for which the benefits of employee and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that are expected to vest. The fair value of awards is calculated using the Black-Scholes option pricing model which considers the following factors:

- Exercise price
- Expected life of the award
- Expected volatility
- Current market price of the underlying shares
- Risk-free interest rate
- Expected forfeitures

m) Revenue recognition

Revenue associated with sales of oil, natural gas and natural gas liquids will be recognized when title passes to the purchaser.

n) Future accounting pronouncements

The Company will be required to adopt the following new and revised International Financial Reporting Standards ("IFRSs") that were issued by the International Accounting Standards Board ("IASB").

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

n) Future accounting pronouncements (continued)

(i) Effective for the Company's fiscal period beginning on October 1, 2013

IFRS 7 Financial Instruments: Disclosures
The amendment to IFRS 7 enhances the disclosure required when offsetting financial assets and liabilities. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities, it will be consolidated in accordance with IFRS 10. This standard is applicable for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

IFRS 11 Joint Arrangements
IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. IFRS 11 differentiates between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets. Proportionate consolidation is used for joint operation and equity accounting is used for joint ventures. This standard is applicable for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. This standard is applicable for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

IFRS 13 Fair Value Measurement
The main provisions of IFRS 13 include defining fair value, setting out a single standard framework for measuring fair value, and specifying certain disclosure requirements about fair value measurements. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

3. SIGNIFICANT ACCOUNTING PRINCIPLES (continued)

n) Future accounting pronouncements (continued)

(i) Effective for the Company's fiscal period beginning on October 1, 2013 (continued)

IAS 28 Investments in Associates and Joint Ventures
IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12. These amendments are applicable for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

(ii) Effective for the Company's fiscal periods beginning on October 1, 2014

IAS 32 Financial Instruments: Presentation
The amendments to IAS 32 pertain to the application guidance on the offsetting of financial assets and financial liabilities. The changes focus on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts and the unit of account for applying the offsetting requirements. The Company is currently assessing the impact that the adoption of this standard may have on its financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

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

Information about critical assumptions that have been identified as being complex or involving subjective judgments or assessments are discussed below:

Exploration and evaluation expenditures
The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the earnings (loss) in the year the new information becomes available.

Title of mineral property interest
Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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.

Decommissioning obligations
Decommissioning obligations will be recorded based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual decommissioning costs will ultimately depend on future market prices for the decommissioning costs which will reflect the market conditions at the time the decommissioning costs are actually incurred.

Share-based payment transactions
The Company measures the cost of equity-settled transactions with employees based on the fair value of the equity instruments on the date of grant. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions used for estimating the fair value for share-based payment transactions are disclosed in Note 11(c).

(in Canadian dollars, except otherwise stated)

5. ACQUISITION

Enterprise Energy Resources Ltd.

On August 20, 2013, the Company acquired all of the issued and outstanding shares of Enterprise Energy Resources Ltd. (“Enterprise”) in exchange for 11,931,702 common shares of the Company. Enterprise was a Canadian exploration and development company with oil and gas properties in Montana, USA and Papua New Guinea. Under the terms of the acquisition, Enterprise’s stock options continued in accordance with the terms of the plan of arrangement and will be exercisable into Esrey common shares. If all such stock options are exercised, an additional 703,750 common shares of Esrey would be issuable.

The allocation of the purchase price of Enterprise acquired is as follows:

Purchase price		
Esrey shares issued		11,931,702
Share price	$	0.300
	$	3,579,510
Stock options issued		151,000
Total consideration	**$**	**3,730,510**
Fair value of assets and liabilities purchased		
Cash and cash equivalents	$	3,763,688
Restricted cash		1,554,113
Other current assets		219,019
Other current liabilities		(105,262)
Exploration and evaluation assets		4,132,983
Non-controlling interest		683,082
Total net assets acquired	**$**	**10,247,623**
Gain on acquisition of Enterprise	**$**	**6,517,113**

(in Canadian dollars, except otherwise stated)

6. EXPLORATION AND EVALUATION ASSETS

	Papua New Guinea	Poland	United States	Bulgaria	Total
Costs					
Balance, September 30, 2011	**$ 45,199,902**	**$ 10,571,629**	**$ -**	**$ 5,055,250**	**$ 60,826,781**
Additions	7,760,210	3,819,990	-	2,723,507	14,303,707
Capitalized stock-based compensation	53,349	266,925	-	-	320,274
Foreign exchange movement	2,609,379	(85,271)	-	(208,322)	2,315,786
Balance, September 30, 2012	**$ 55,622,840**	**$ 14,573,273**	**$ -**	**$ 7,570,435**	**$ 77,766,548**
Acquisition costs	1,890,000	-	2,242,983	-	4,132,983
Additions	3,345,430	295,969	131,197	-	3,772,596
Change in decommissioning obligations	-	-	15,529	-	15,529
Capitalized stock-based compensation	19,513	45,809	-	-	65,322
Proceeds from farm-in	(7,522,079)	-	-	-	(7,522,079)
Foreign exchange movement	(927,188)	703,104	2,135	-	(221,949)
Balance, September 30, 2013	**$ 52,428,516**	**$ 15,618,155**	**$ 2,391,844**	**$ 7,570,435**	**$ 78,008,950**
Accumulated depletion and impairment losses					
Balance, September 30, 2011	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Impairment	46,978,245	-	-	7,570,435	54,548,680
Balance, September 30, 2012	**$ 46,978,245**	**$ -**	**$ -**	**$ 7,570,435**	**$ 54,548,680**
Impairment	-	7,921,658	-	-	7,921,658
Balance, September 30, 2013	**$ 46,978,245**	**$ 7,921,658**	**$ -**	**$ 7,570,435**	**$ 62,470,338**
Carrying amounts					
Carrying value at September 30, 2011	$ 45,199,902	$ 10,571,629	$ -	$ 5,055,250	$ 60,826,781
Carrying value at September 30, 2012	$ 8,644,595	$ 14,573,273	$ -	$ -	$ 23,217,868
Carrying value at September 30, 2013	**$ 5,450,271**	**$ 7,696,497**	**$ 2,391,844**	**$ -**	**$ 15,538,612**

6. EXPLORATION AND EVALUATION ASSETS (continued)

Papua New Guinea

As at September 30, 2013, the Company holds an 84.25% working interest in Petroleum Prospecting Licenses ("PPL") 320, 321 and 322 and a 16.85% working interest in PPL 319 through permits received from the Minister of Petroleum and Energy for Papua New Guinea on November 20, 2008. The four PPLs have a six year term along with remaining conditional work and expenditure commitments for each PPL. As required by the licenses, the Company has submitted proposed work programs for years 5 and 6 for each PPL. For PPL 319, the proposed work program includes the acquisition of a minimum of 100km of seismic in PPL 319 as well as the drilling of an exploration well conditional on the seismic results showing a drillable target for PPL 319. For PPLs 320, 321 and 322, the proposed work programs include various geological studies and seismic reprocessing. The Company has not yet received formal notification on approval of these proposed work programs. A delay or rejection of the proposed work programs may result in an impairment of the costs associated with these licenses.

As at September 30, 2013, the Company also holds a 20% working interest in Petroleum Retention License ("PRL") 13. The Company applied for a renewal of PRL 13 and is yet to receive formal notification from the Minister as to the grant of an extension. A delay or rejection of the renewal may result in an impairment of the costs associated with this PRL. The Register maintained by the Department of Petroleum and Energy records PRL 13 as having been extended until January 29, 2015. The current work program includes the acquisition of 10km of seismic data, additional geological work and the further acquisition of seismic or the drilling of a well conditional upon the results of previous elements of the work program.

The licenses are subject to a 22.5% back-in participation right in favour of the government. The government may exercise this right at any point in time in exchange for 22.5% of the costs incurred in the development of the property until that point in time. The government also has a 2% royalty over any oil and natural gas production that may occur with respect to these licenses.

On January 24, 2013, the Company entered into an investment agreement whereby a third party, EERL Holdings BVI Ltd ("EERL Holdings"), acquired 31.5% of the shares of the Company's subsidiary, Telemu, in consideration for funding of US$4,000,000 ($3,938,400). Telemu holds PPLs 319, 320, 321 and 322. The Company recorded an impairment loss of $46,978,245 with regards to its properties in Papua New Guinea during the year ended September 30, 2012. On August 20, 2013, the Company re-acquired 15.75% of its equity interest in Telemu (Notes 5 and 12).

On April 22, 2013, the Company closed a farm-in agreement with Heritage Oil Plc ("Heritage") in which Heritage obtained an 80% participating interest in both PPL 319 and PRL 13, subject to the fulfillment of certain work commitments, in exchange for a cash payment of US$4,000,000 plus the reimbursement of costs of $3,522,079 associated with the recently completed 22km seismic program totaling $7,522,079. In addition to the cash payment, Heritage committed to funding the acquisition of an additional 78km of seismic within the license areas and the drilling of one exploration well in PPL 319 to a depth sufficient to test identified exploration targets. The working interests in PPL 319 and PRL 13 of 16.85% and 20%, respectively, assume that Heritage will meet its work commitments in the future and earn its full 80% farm-in.

During the year ended September 30, 2013, $19,513 of stock based compensation expense was capitalized ($53,348 for the year ended September 30, 2012). During the year ended September 30, 2013, $70,091 of general and administrative costs were capitalized ($252,147 for the year ended September 30, 2012).

6. EXPLORATION AND EVALUATION ASSETS (continued)

Poland

As at September 30, 2013, the Company, through its wholly owned subsidiary, Kaynes, had a 20.18% net working interest in three concessions (Slupsk, Starogard and Slawno) in Poland. The other partners were BNK Petroleum Inc., Sorgenia E&P S.p.A. ("Sorgenia") and Rohol-Aufsuchungs Aktiengesellschaft ("RAG"). The terms of participation require the Company to fund its proportionate 20.18% share of all operational costs. The terms include the drilling, completing and testing of second wells in each of the three concessions by June 2014.

On September 18, 2013, the Saponis Management Board decided to relinquish the Slawno and Starogard concessions and immediately initiate the process to abandon the corresponding wells. Relinquishment and abandonment is expected to take place in 2014. As at September 30, 2013, the costs associated with these concessions have been written-off in full, which resulted in an impairment charge of $5,479,120 being recorded by the Company during the year ended September 30, 2013.

On December 31, 2013, the Company and BNK acquired Sorgenia's and RAG's interests in Saponis on a pro-rata basis in exchange for assuming the departing partners' future obligations with regards to Saponis. This acquisition increased the Company's working interest in Saponis to 42.96%

The Company, through Kaynes, has a 50% interest in Joyce and a 50% interest in Maryani. In turn, Joyce holds a 100% interest in the Ilawa oil and gas exploration concession and Maryani holds a 100% interest in the Wegrow oil and gas exploration concession. The terms of both the Ilawa and Wegrow concessions include the requirement to reprocess existing seismic data and the acquisition of 50 km of new 2D seismic in each concession by June 2012. These commitments were fully met. The Wegrow concession terms also include the requirement to drill a well to a depth of 2,750m by December 2013. As such a well was not drilled, the Company is currently seeking an extension of the license terms.

In June 2012, the Company filed and received a renewal for the Ilawa concession extending the term to maximum of 5 years. This extension carries a commitment to commence drilling a well in Ilawa no later than June 2014. As at September 30, 2013, the Company had no intention of going forward with the Ilawa project prior to the expiration of the Ilawa concession. As a result, the costs associated with the Ilawa concession as at September 30, 2013, were written off in full, which resulted in an impairment charge of $2,442,538 being recorded by the Company during the year ended September 30, 2013.

If the Company does not fund its proportionate share of expenditures in Poland, the Company's working interest may be reduced through dilution to the other partner.

During the year ended September 30, 2013, $45,809 of stock based compensation costs were capitalized in Poland ($266,925 for the year ended September 30, 2012) and $41,510 of general and administrative costs were capitalized ($364,248 for the year ended September 30, 2012). Recovery of costs in the Polish properties is uncertain and is dependent upon achieving commercial production or sale. The Company reduced the carrying values of its concessions in Poland and recorded an impairment loss totalling $7,921,658 during the year ended September 30, 2013.

6. EXPLORATION AND EVALUATION ASSETS (continued)

United States

On August 20, 2013, the Company completed the acquisition of Enterprise, which held 100% working interests in approximately 13,000 net acres of oil and gas leases in Sheridan County and 46,700 net acres of oil and gas leases in Cascade County in Montana, USA.

Sheridan County

The oil and gas leases in Sheridan County include a commitment to drill four wells ("Initial Wells") of which two must be drilled horizontally. The first Initial Well has been drilled. For the three remaining wells, the Company will pay US$500,000 for each Initial Well not drilled. This payment is due and payable within 30 days after the earlier of: 1) when it is determined that one or more of the Initial Wells will not be drilled; or 2) the expiration of the terms of the leases. The Initial Wells can be drilled by the Company or a third party, if the third party holds any or all of the Company's interest in the leases. The Company has deposited $1,494,900 into escrow for the US$1,500,000 future commitment, which has earned accumulated interest of $59,213 as at September 30, 2013. The total amount of restricted cash is $1,554,113.

The original vendor of the leases can elect to take assignment of a 10% working interest (and an 8% net revenue interest) in any of the Initial Wells. If the original vendor makes the election to take a 10% working interest assignment on any of the Initial Wells, the Company is required to fund this 10% working interest in such Initial Well, through and including completion, on behalf of the original vendor. The original vendor also has the ability to elect to participate and fund a 10% working interest (and an 8% net revenue interest) of any wells subsequent to the Initial Wells.

Operations on the Archer well located in Sheridan County remain temporarily suspended awaiting further analysis.

Subsequent to September 30, 2013, a portion of the Sheridan Country leases were not renewed by the Company. As at January 24, 2014, the Company's 100% working interest in oil and gas leases in Sheridan County had decreased from approximately 13,000 net mineral acres to 3,900 net mineral acres.

Cascade County

The Company has a 100% working interest and a 79% net revenue interest in its oil and gas leases in Cascade County, the majority of which have a 10 year term. In the event that the Company sells these leases, a disposition bonus equal to 30% of the net profit realized in connection with such disposition is payable to the entity that the Company purchased the leases from. In addition, should the Company commence commercial production of hydrocarbons on the lands covered by the leases, a production bonus of US$1,500,000 is payable to the entity that the Company purchased the leases from.

6. EXPLORATION AND EVALUATION ASSETS (continued)

Bulgaria

In September 2011, the Company entered into a farm-in transaction with a wholly owned subsidiary of TransAtlantic Petroleum Ltd. ("TransAtlantic"), to earn a 50% interest in a future production concession ("Etropole concession") in Bulgaria. The application for the Etropole concession was submitted in November 2011 and amended in April 2012, but the concession has not yet been granted. In exchange for the Company's 50% undivided interest in the Etropole concession, the Company is expected to fund up to US$15 million of drilling and completion costs.

As at September 30, 2013, the Company has funded a total of US$7,492,122 (Cdn$7,570,435) towards the drilling of a 3,190 m (10,466 ft.) exploration well on the A-Lovech exploration license, which targets the Middle Jurassic Etropole formation. The remaining US$7.5 million is expected to be used to drill a second well or for other exploration activities on the Etropole concession after the concession has been granted. If the Etropole concession is granted and the concession covers an aggregate amount equal to or greater than 200,000 acres, then an additional US$5 million is payable to TransAtlantic.

In January 2012, the Bulgarian Parliament enacted legislation, which among other things, banned fracture stimulation in Bulgaria. The Company recorded an impairment loss of $7,570,435 during the year ended September 30, 2012, as this legislation created uncertainty with respect to the ultimate cost recovery of the Company's assets in Bulgaria.

(in Canadian dollars, except otherwise stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Total
Costs	
Balance, September 30, 2011	$ 340,699
Additions	4,798
Foreign exchange movement	56,245
Balance, September 30, 2012	$ 401,742
Additions	277
Disposals	(26,420)
Foreign exchange movement	(46,215)
Balance, September 30, 2013	**$ 329,384**
Accumulated depreciation and impairment losses	
Balance, September 30, 2011	$ 138,793
Depreciation	46,245
Foreign exchange movement	21,972
Balance, September 30, 2012	$ 207,010
Depreciation	33,029
Disposal	(23,075)
Write-down	(3,347)
Foreign exchange movement	(29,018)
Balance, September 30, 2013	**$ 184,599**
Carrying amounts	
Carrying value at September 30, 2011	$ 201,906
Carrying value at September 30, 2012	$ 194,732
Carrying value at September 30, 2013	**$ 144,785**

(in Canadian dollars, except otherwise stated)

8. JOINT VENTURES

Saponis Investments Sp z.o.o.

As at September 30, 2013, Saponis held three oil and gas concessions in Poland (Starogard, Slupsk and Slawno). However, on September 18, 2013 the Saponis Management Board decided to relinquish the Starogard and Slawno concessions and immediately initiate the process to abandon the corresponding wells. The terms and conditions of participation require the Company to fund 20.18% (which changed to 42.96% as at December 31, 2013) of all costs related to the concessions. As at September 30, 2013, the other partners were BNK, Sorgenia E&P S.p.A., and Rohol-Aufsuchungs Aktiengesellschaft. As at December 31, 2013, only BNK remained a partner. The Company's net interest in Saponis is accounted for on a proportionate consolidation basis.

For the year ended and as at September 30, 2013 and 2012, the Company's net share of amounts attributed to it by the joint venture was as follows:

	September 30,	
	2013	2012
Statement of financial position		
Cash and cash equivalents	**297,528**	541,583
Amounts receivable	**59,556**	87,043
Prepaid expenses, advances and other deposits	**27,485**	27,831
Exploration and evaluation assets	**3,988,447**	8,541,017
Accounts payable and accrued liabilities	**(165,372)**	(248,114)
Decommissioning obligations	**(56,402)**	(38,186)
Net contribution from joint ventures	**4,151,242**	8,911,174

	For the years ended September 30,	
	2013	2012
Statement of loss		
Interest income	**26,759**	15,117
Write-down of exploration and evaluation assets	**(5,479,120)**	-
Expenses	**(245,081)**	(369,375)
Foreign exchange gain (loss)	**85,076**	(2,765)
Net loss	**(5,612,366)**	(357,023)

Joyce Podlasie, LLC and Maryani Podlasie, LLC

In February 2011, the Company, through its subsidiary, Kaynes, acquired a 50% interest in Joyce and a 50% interest in Maryani for a total purchase price of US$4,000,000.

The terms and conditions of participation require the Company to fund 50% of all costs related to the concessions held by Joyce and Maryani (Ilawa and Wegrow, respectively). The other partner is San Leon Energy Plc ("San Leon") which also owns a 50% interest in each of Joyce and Maryani. The Company's net interest in Joyce and Maryani is accounted for on a proportionate consolidation basis. The Company is the operator for both the Ilawa and Wegrow concessions.

(in Canadian dollars, except otherwise stated)

8. JOINT VENTURES (continued)

Joyce Podlasie, LLC and Maryani Podlasie, LLC (continued)

For the years ended and as at September 30, 2013 and 2012, the Company's net share of amounts attributed to it by the joint ventures were as follows:

	September 30,	
	2013	2012
Statements of financial position		
Cash and cash equivalents	**86,435**	31,289
Amounts receivable	**3,070**	135,752
Exploration and evaluation assets	**2,384,220**	4,676,910
Accounts payable and accrued liabilities	**(145,004)**	(134,030)
Net contribution from joint ventures	**2,328,721**	4,709,921

	For the Years Ended September 30,	
	2013	2012
Statements of loss		
Expenses	**(71,169)**	(50,595)
Write-down of exploration and evaluation assets	**(2,442,538)**	-
Net loss	**(2,513,707)**	(50,595)

EERL Holdings (BVI) Ltd.

On August 20, 2013, the Company acquired a 50% interest in EERL (BVI) Holdings Ltd. (“EERL Holdings”) as part of the amalgamation of Enterprise Energy Resources Ltd. (“Enterprise”) (Note 5). The remaining 50% ownership in EERL Holdings is owned by a third party. EERL Holdings owns 31.5% of Telemu.

For the year ended and as at September 30, 2013 and 2012, the Company's net share of amounts attributed to it by the joint venture was as follows:

(in Canadian dollars, except otherwise stated)

8. JOINT VENTURES (continued)

EERL Holdings (BVI) Ltd. (continued)

	September 30, 2013	September 30, 2012
Statement of financial position		
Cash and cash equivalents	**53,845**	-
Amounts receivable	**90,873**	-
Exploration and evaluation assets	**1,890,000**	-
Accounts payable and accrued liabilities	**(27,626)**	-
Net contribution from joint ventures	**2,007,092**	-

	For the Years Ended September 30, 2013	For the Years Ended September 30, 2012
Statements of loss		
Expenses	**(15)**	-
Net loss	**(15)**	-

9. DECOMMISSIONING OBLIGATIONS

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with asset retirement costs of the Wytowno, Starogard and Lebork wells in Poland and the Archer Well in Montana, USA:

	September 30, 2013	September 30, 2012
Balance, beginning of the year	**$ 38,186**	$ 37,820
Addition of the USA decommissioning obligation	**52,685**	-
Change in estimates	**15,529**	-
Accretion expense	**4,816**	366
Total decomissioning obligations	**111,216**	38,186
Less current decommissioning obligations	**(52,965)**	-
Long term decommissioning obligations	**$ 58,251**	$ 38,186

The undiscounted cash flow required to settle the obligation for the Wytowno, Starogard and Lebork wells in Poland is approximately $183,960, representing the Company's 20.18% working interest as at September 30, 2013, with an estimated abandonment date of 2026. The calculation was assessed using a risk-free interest rate of 9.50% and an assumed inflation rate of 1.022% per annum.

The undiscounted cash flow required to settle the obligation for the Archer well in Montana, USA is approximately $53,575 with an estimated abandonment date of 2014. The calculation was assessed using a risk-free interest rate of 3.39% and an assumed inflation rate of 1.015% per annum.

10. LOANS PAYABLE

(a) On February 27, 2012, the Company's wholly owned subsidiary, Kaynes, entered into non-revolving credit facilities totaling US$5,000,000 ("the Loans"). The Loans were repayable within one year on or before February 27, 2013. On January 24, 2013, an extension to the credit facilities was agreed upon whereas the maturity date was extended from the first anniversary date to the third anniversary date, being February 27, 2015. In addition, the contingency bonus payments were increased from 3.125% to 6.25% and from 9.375% to 18.75% for the US$1,250,000 and US$3,750,000 portions of the facilities, respectively. For the year ended September 30, 2013, the interest expense related to the Loans was $377,081 and is payable upon maturity. Funds drawn under the credit facilities are secured against all of the shares of Kaynes. Interest is accrued at a fixed rate of 7% per annum. In the event that Kaynes disposes of certain assets prior to February 27, 2016, Kaynes will be required to pay the lenders a contingent bonus of 25% of the proceeds arising from the disposition of such assets.

(b) As part of the investment agreement with EERL Holdings (Note 6), there was a loan of $2,295,103 payable to EERL BVI Holdings by Telemu. This loan formed part of the funding of US$4,000,000. This loan is non-interest bearing and is payable within a year. As at September 30, 2013, the Company had repaid $2,166,353 of the loan and $181,899 remains outstanding.

11. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value.

Subsequent to September 30, 2013, the Company approved a net consolidation of its issued share capital on the basis of one new common share for twenty old common shares. All current comparative references to the number of shares, options, weighted average number of common shares and loss per share have been restated to the twenty for one net share consolidation (Note 19).

b) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the year ended September 30, 2013 is 18,276,242 (16,935,149 for the year ended September 30, 2012). The average number of common shares outstanding was not increased for outstanding stock options as the effect would be anti-dilutive.

c) Stock options

The following table summarizes information about stock option transactions:

(in Canadian dollars, except otherwise stated)

11. SHARE CAPITAL (continued)

c) Stock options (continued)

	Number of Options	Average Exercise Price
Balance, September 30, 2011	1,022,500	$9.84
Granted	453,250	$3.03
Exercised	(10,000)	$2.00
Forfeited	(302,000)	$8.90
Balance, September 30, 2012	1,163,750	$7.50
Granted	703,750	$2.23
Forfeited	(148,500)	$5.95
Expired	(262,000)	$9.81
Balance, September 30, 2013	**1,457,000**	**$4.72**

The following table summarizes information about the stock options outstanding at September 30, 2013

Exercise price	Options outstanding	Options exercisable	Expiry date
$3.80	63,000	63,000	May 14, 2014
$1.20	101,250	101,250	September 18, 2014
$11.80	258,750	258,750	April 18, 2016
$10.60	90,000	90,000	June 7, 2016
$2.40	200,000	200,000	July 18, 2016
$2.40	402,500	402,500	April 19, 2016
$3.00	341,500	227,667	April 24, 2017
	1,457,000	**1,343,167**	

In August 20, 2013, upon the acquisition of Enterprise, 140,750 of Enterprise stock options were converted to 703,750 of Esrey stock options.

The fair value of the options granted during the year ended September 30, 2013 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	August 20, 2013
Risk free interest rate	1.22%
Dividend yield	Nil
Expected volatility	184.58 % - 271.88%
Expected option life	1.08 - 2.91 years
Estimated fair value per option	$2.14 - $2.18
Stock price at date of grant	$0.30
Exercise price per option	$1.20, $2.40

(in Canadian dollars, except otherwise stated)

11. SHARE CAPITAL (continued)

c) Stock options (continued)

The stock based compensation expense for the year ended September 30, 2013 was $115,741 ($138,831 for the year ended September 30, 2012). The Company capitalized $65,322 of stock based compensation expense for the year ended September 30, 2013 ($320,274 for the year ended September 30, 2012). $151,000 of stock based compensation expense resulting from the acquisition of Enterprise, was capitalized. This resulted in a change within contributed surplus of $332,063 for the year ended September 30, 2013 ($459,105 for the year ended September 30, 2012).

12. NON-CONTROLLING INTEREST

The non-controlling interest is comprised of the following:

Balance, September 30, 2011 and 2012	$	-
Non-controlling interests' share of Telemu		1,599,990
Acquisition of 15.75% of non-controlling interest		(683,082)
Non-controlling interests' share of loss in Telemu		(244,387)
Foreign exchange translation		(99,991)
Balance, September 30, 2013	**$**	**572,530**

13. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of members of key management personnel during the year ended September 30, 2013 and 2012 was as follows:

	For the Year Ended September 30,			
		2013		2012
Consulting fees	**$**	**447,203**	$	386,385

Consulting fees relate to amounts paid to the Chief Executive Officer (“CEO”) the former Chief Financial Officer (“CFO”) and directors of the Company.

During the year ended September 30, 2013, there were $174,774 (September 30, 2012 - $115,908) of stock based payments made to key management personnel consisting of the CEO, the former CFO and directors of the Company. During the year ended September 30, 2013, a termination payment of $89,048 was paid to the former CFO (none for the year ended September 30, 2012).

(in Canadian dollars, except otherwise stated)

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Changes in non-cash working capital are as follows:

	For the Years Ended September 30, 2013	2012
Amounts receivable	**$ (205,258)**	$ 72,118
Prepaid expenses, advances and other term deposits	**1,819**	10,263
Accounts payable and accrued liabilities	**60,241**	(5,737,450)
Change in non-cash working capital	**$ (143,198)**	$ (5,655,069)
Relating to:		
Operating activities	**$ (590,696)**	(738,230)
Investing activities	**447,498**	(4,916,839)
Change in non-cash working capital	**$ (143,198)**	$ (5,655,069)

15. INCOME TAXES

The Company's provision for income taxes differs from the amounts computed by applying the statutory tax rates to the loss from continuing operations as a result of the following:

	September 30, 2013	2012
Loss from continuing operations before income taxes	**$ (4,180,797)**	$ (59,648,228)
Statutory rates	**25.5%**	25.0%
	(1,066,103)	(14,912,057)
Differences in tax rates between foreign jurisdictions	**(410,585)**	(302,571)
Gain on acquisition of Enterprise	**(1,661,864)**	-
Writedown relating to assets with no tax base due to initial recognition exemption	**-**	799,000
Share-based payments	**29,514**	34,708
Other	**451,752**	22,037
Change in unrecognized tax benefit	**2,712,535**	14,448,830
Unrealized foreign exchange	**(55,249)**	(56,908)
	$ (0)	$ 33,039

The statutory rate increased to 25.5% in 2013 from 25.0% as a result of provincial tax rate increases.

(in Canadian dollars, except otherwise stated)

15. INCOME TAXES (continued)

Deferred tax assets have not been recognized for the following deductible temporary differences:

	September 30,	
	2013	2012
Non-capital loss carry forward	**$ 45,863,841**	$ 36,239,997
Unrealized foreign exchange	**4,294,678**	4,511,341
Capital loss carry forward	**426,032**	156,000
Decommissioning obligation	**111,216**	38,174
Share issue costs	**2,731,042**	2,656,767
Property, plant and equipment/exploration and evaluation assets	**34,476,220**	30,687,545
	$ 87,903,029	$ 74,289,824

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which they can be utilized.

The Company had non-operating losses in Canada, Papua New Guinea, Poland, the United States and Bulgaria. The Company has total non-operating losses carried forward of approximately $45.8 million available to offset future income for tax purposes, which expire between 2014 and 2032.

The Company has temporary differences associated with its investments in its foreign subsidiaries and partnerships. The Company has no deferred tax liabilities in respect of these temporary differences.

16. FINANCIAL INSTRUMENTS

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

Fair value of financial assets and liabilities
Fair value has been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The carrying amount for cash and cash equivalents, restricted cash, amounts receivable and accounts payable and accrued liabilities on the statement of financial position approximate their fair value because of the limited term of these instruments.

The carrying amount for loans payable approximates its fair value as it is classified as a financial liability measured at amortized cost.

16. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy
Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

The Company did not have any financial instruments in Level 1, 2 or 3.

Financial risk management objectives and policies
The Company has exposure to the following risks from its use of financial instruments
- Credit risk
- Liquidity and funding risk
- Market risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risk, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in these notes.

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.

Credit risk
Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash and cash equivalents and amounts receivable is believed to be minimal. Cash consists of cash on deposit in major banks that are considered to be creditworthy. Amounts receivables are comprised primarily of amounts due from VAT receivables from the local government in Poland. Due to the nature of these financial assets, the Company does not believe it is exposed to significant credit risk and counterparty risks.

16. FINANCIAL INSTRUMENTS (continued)

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 holding of cash. The Company's cash is invested in business accounts and are 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. (Note 2(c)) .

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 September 30, 2013.

Contractual maturity analysis as at September 30, 2013

	Less than 3 months	3 - 12 months	1 - 5 years	Longer than 5 years	Total
Accounts payable	$ 598,123	$ -	$ -	$ -	**$ 598,123**
Accrued liabilities	215,149	194,733	-	-	**409,882**
Loans payable - current	-	181,899	-	-	**181,899**
Loans payable - long term	-	-	5,752,725	-	**5,752,725**
Total	**$ 813,272**	**$ 376,632**	**$ 5,752,725**	**$ -**	**$ 6,942,629**

Market risk
The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rates. Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. 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.

a. Interest rate risk
The Company has minimal exposure to interest rate fluctuations on its cash and cash equivalents balances due to current low market interest rates. Based on 2013 cash balances, a 1% increase or decrease in the prime interest rates would result in approximately a $5,000 increase or decrease in the Company's after-tax net loss and comprehensive loss.

b. Foreign currency risk
The Company's exploration expenditures, certain acquisition costs and other operating expenses are denominated in US dollars, Papua New Guinea kina and Polish zloty. The Company's exposure to foreign currency risk arises primarily on fluctuations between the Canadian dollar and the US dollar, Papua New Guinea kina and Polish zloty. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

(in Canadian dollars, except otherwise stated)

16. FINANCIAL INSTRUMENTS (continued)

The Company is exposed to currency risk though the following financial assets and liabilities denominated in currencies other than the Canadian dollar at September 30, 2013 and 2012:

September 30, 2013		**US dollars**	**PNG kina**	**Polish zloty**		**Euro**
Cash	$	3,469,086	30,530	296,672	€	61,483
Amounts receivable		2,871	9,164	62,671		-
Deposits		-	7,838	4,947		-
Accounts payable and accrued liabilities		(231,827)	(52,375)	(280,462)		(160)
	$	3,240,130	(4,843)	83,828	€	61,323

September 30, 2012		**US dollars**	**PNG kina**	**Polish zloty**		**Euro**
Cash	$	123,626	21,674	548,671	€	97,221
Amounts receivable		57,763	27,001	221,702		-
Deposits		-	10,870	5,620		-
Accounts payable and accrued liabilities		(14,131)	(195,374)	(387,467)		-
	$	167,258	(135,829)	388,526	€	97,221

17. CAPITAL MANAGEMENT

The Company manages, as capital, the components of shareholders' equity. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern in order to explore its oil and gas interests and 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, option its oil and gas properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, 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.

(in Canadian dollars, except otherwise stated)

18. SEGMENT INFORMATION

Geographic Information:

The Company operates in one reportable operating segment, being the exploration of oil and gas properties in Papua New Guinea, Poland and the United States. The geographical information is as follows:

As at September 30, 2013	**Papua New Guinea**	**Poland**	**United States**	**Canada**	**Total**
Current assets	$ 611,732	$ 476,781	$ 3,837,988	$ 3,543,695	**$ 8,470,196**
Exploration and evaluation assets	5,450,271	7,696,497	2,391,844	-	**15,538,612**
Property, plant and equipment	67,118	-	-	77,667	**144,785**
Restricted cash	-	-	1,554,113	-	**1,554,113**
	$ 6,129,121	**$ 8,173,278**	**$ 7,783,945**	**$ 3,621,362**	**$ 25,707,706**

As at September 30, 2012	**Papua New Guinea**	**Poland**	**United States**	**Canada**	**Total**
Current assets	$ 399,540	$ 888,165	$ -	$ 300,038	$ 1,587,743
Exploration and evaluation assets	8,644,595	14,573,273	-	-	23,217,868
Property, plant and equipment	101,808	-	-	92,924	194,732
	$ 9,145,943	$ 15,461,438	$ -	$ 392,962	$ 25,000,343

19. SUBSEQUENT EVENTS

On October 13, 2013, 17,500 stock options were forfeited without exercise. Of the 17,500 stock options forfeited, 7,500 had an exercise price of $3.80; 7,500 had an exercise price of $11.80 and 2,500 had an exercise price of $3.00 respectively.

On November 18, 2013, the Company consolidated its common shares on a 1000 old common shares to 1 new common shares basis. Holders holding less than one full share post-consolidation were entitled to cash payment of $0.01 per share of their holdings on a pre-consolidation basis in lieu of a fractional share. A total of 965,920 pre-consolidated shares related to small lot holders were paid and cancelled. Following the consolidation, the Company immediately completed a stock split on the basis of 1 old common share for 50 new common shares, with fractional shares being rounded to the nearest whole number. The consolidation and stock split achieved a 20 to 1 consolidation. Prior to the consolidation, the Company had 577,353,410 common shares issued and outstanding. After reducing this by the 965,910 small lot holder pre-consolidated shares, the Company has 28,819,375 pre-consolidated common shares issued and outstanding post consolidation and stock split.

(in Canadian dollars, except otherwise stated)

19. SUBSEQUENT EVENTS (continued)

	Prior to consolidation	Subsequent to consolidation and stock split (20:1)
Common shares issued and outstanding, as at September 30, 2013	577,353,410	28,867,670
Less: small lot holders	(965,920)	(48,295)
Common shares issued and outstanding, as at January 24, 2014	**576,387,490**	**28,819,375**

On November 20, 2013, 140,000 stock options were forfeited without exercise. Of the 140,000 stock options forfeited, 25,000 had an exercise price of $3.80; 100,000 had an exercise price of $11.80 and 15,000 had an exercise price of $3.00.

Between October 1, 2013 and January 24, 2014, the Company relinquished approximately 9,100 net acres of oil and gas leases within Sheridan County, Montana.

On December 31, 2013, the Company and BNK acquired Sorgenia's and RAG's interests in Saponis on a pro-rata basis in exchange for assuming the departing partners' future obligations with regards to Saponis. This acquisition increased the Company's working interest in Saponis to 42.96%

On January 8, 2013, the Company granted 994,000 stock options to directors, officers, employees and consultants of the Company. These options are exercisable over 5 years at an exercise price of $0.12 per share.