esrey

ENERGY LTD

(Formerly LNG Energy Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014 and 2013

(in Canadian dollars)

Esrey Energy Ltd. (Formerly LNG Energy Ltd.)
September 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Esrey 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, 2014, September 30, 2013 and October 1, 2012, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended September 30, 2014 and September 30, 2013, 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 Esrey Energy Ltd. as at September 30, 2014, September 30, 2013 and October 1, 2012, and its consolidated financial performance and its consolidated cash flows for the years ended September 30, 2014 and September 30, 2013 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 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

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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.

Comparative Information

Without modifying our opinion, we draw attention to Note 3(o) to the consolidated financial statements which indicates that the comparative information as at and for the year ended September 30, 2013 has been restated for the retrospective adoption of IFRS 11, Joint Arrangements, and the comparative information presented as at October 1, 2012 has been derived from the consolidated financial statements as at and for the year ended September 30, 2012.

KPMG LLP

Chartered Accountants
December 17, 2014
Calgary, Canada

Esrey Energy Ltd. (Formerly LNG Energy Ltd.)

Consolidated statements of financial position
(Expressed in Canadian dollars)

	Note	September 30, 2014	September 30, 2013 Restated (Note 3(o)(iii)a)	October 1, 2012 Restated (Note 3(o)(iii)a)
ASSETS				
Current assets				
Cash and cash equivalents		**$ 8,099,814**	$ 7,039,375	$ 225,665
Amounts receivable		**50,279**	388,863	115,477
Prepaid expenses and other deposits		**407,934**	422,964	424,437
		8,558,027	7,851,202	765,579
Non-current assets				
Exploration and evaluation assets	7	**6,288,048**	9,128,125	9,970,456
Property, plant and equipment	8	**56,754**	144,785	194,732
Investment in associate and joint ventures	9	**127,347**	1,911,395	7,964,317
Restricted cash	7(c)(i)	**-**	1,554,113	-
		$ 15,030,176	$ 20,589,620	$ 18,895,084
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		**$ 307,337**	$ 700,040	$ 538,303
Decommissioning obligations	10	**55,876**	52,965	-
Loans payable	11	**3,853,830**	181,899	-
		4,217,043	934,904	538,303
Non-current liabilities				
Loans payable	11	**-**	5,752,725	5,122,848
		4,217,043	6,687,629	5,661,151
Equity				
Share capital	12	**110,392,414**	106,790,751	103,211,241
Contributed surplus	12(d)	**12,861,607**	12,729,232	12,397,169
Accumulated other comprehensive income		**7,451,804**	6,560,305	7,981,090
Non-controlling interest	13	**612,023**	572,530	-
Deficit		**(120,504,715)**	(112,750,827)	(110,355,567)
		10,813,133	13,901,991	13,233,933
		$ 15,030,176	$ 20,589,620	$ 18,895,084

Approved and authorized for issue by the Board on December 17, 2014.

(Signed) "Paul Larkin"
Director

(Signed) "David Cohen"
Director

See the accompanying notes to these consolidated financial statements.

Esrey Energy Ltd. (Formerly LNG Energy Ltd.)

Consolidated statements of comprehensive loss
(Expressed in Canadian dollars, except per share amounts)

	Note		Year ended September 30, 2014		Year ended September 30, 2013 Restated (Note 3(o)(iii)b)
Expenses:					
Depreciation	8	**$**	**37,221**	$	33,029
Settlement of drilling obligations	7(c)(i)		**1,048,310**		-
Loss on disposal of fixed assets			**37,542**		-
General and administrative expenses			**631,984**		890,668
Professional fees			**1,207,493**		1,143,904
Share based payments	12(d)		**131,811**		115,741
Travel and business development			**149,406**		199,789
Impairment of property, plant and equipment	8		**-**		3,347
Impairment of exploration and evaluation assets	7		**176,533**		-
			(3,420,300)		(2,386,478)
Other income (expenses):					
Accretion expense	10		**(1,721)**		(280)
Interest expense	11(a)		**(345,984)**		(475,324)
Interest income			**12,463**		13,274
Other income			**3,606**		-
Gain on acquisition of Enterprise			**-**		6,517,113
Loss on settlement of debt	11(a)		**(704,730)**		-
Foreign exchange gain			**434,392**		286,502
			(601,974)		6,341,285
(Loss) income for the year before tax			**(4,022,274)**		3,954,807
Income tax recovery (expense)	14		**398,617**		(2,155)
(Loss) income from continuing operations			**(3,623,657)**		3,952,652
Loss from discontinued operations	15		**(4,160,967)**		(6,592,299)
Net loss for the year		**$**	**(7,784,624)**	$	(2,639,647)
Attributable to:					
Non-controlling interest	13		**(30,736)**		(244,387)
Equity shareholders of the Company			**(7,753,888)**		(2,395,260)
		$	**(7,784,624)**	$	(2,639,647)
Other comprehensive income (loss)					
Foreign currency translation gain (loss) attributed to non-controlling interest			**70,229**		(99,991)
Foreign currency translation gain (loss) for equity shareholders of the Company			**891,499**		(1,420,785)
		$	**(6,822,896)**	$	(4,160,423)
Loss per share					
Basic and diluted from continuing operations	16	**$**	**(0.11)**	$	0.23
Basic and diluted from discontinued operations	16	**$**	**(0.12)**	$	(0.36)

See the accompanying notes to the consolidated financial statements.

Esrey Energy Ltd. (Formerly LNG Energy Ltd.)

Consolidated statements of changes in equity

(Expressed in Canadian dollars, except for share amounts)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Non-controlling interest	Deficit	Total equity
Balance as previously reported, **October 1, 2012**	**16,935,968**	**$ 103,211,241**	**$ 12,397,169**	**$ 7,455,396**	**$ -**	**$ (104,172,261)**	**$ 18,891,545**
Adjustments (Note 3(o)(iii)a)	-	-	-	525,694	-	(6,183,306)	(5,657,612)
Adjusted balance, October 1, 2012	**16,935,968**	**$ 103,211,241**	**$ 12,397,169**	**$ 7,981,090**	**$ -**	**$ (110,355,567)**	**$ 13,233,933**
Share based payments	-	-	181,063	-	-	-	181,063
Shares issued on the acquisition of Enterprise (Note 6)	11,931,702	3,579,510	151,000	-	-	-	3,730,510
Non-controlling interest	-	-	-	-	916,908	-	916,908
Net loss for the period	-	-	-	-	(244,387)	(2,395,260)	(2,639,647)
Foreign currency translation	-	-	-	(1,420,785)	(99,991)	-	(1,520,776)
Adjusted balance, September 30, 2013	**28,867,670**	**$ 106,790,751**	**$ 12,729,232**	**$ 6,560,305**	**$ 572,530**	**$ (112,750,827)**	**$ 13,901,991**
Shares issued on the settlement of debt (Note 12c)	10,943,396	3,611,321	-	-	-	-	3,611,321
Share based payments (Note 12d)	-	-	132,375	-	-	-	132,375
Share consolidation payments (Note 12b)	(48,295)	(9,658)	-	-	-	-	(9,658)
Net loss for the period	-	-	-	-	(30,736)	(7,753,888)	(7,784,624)
Foreign currency translation	-	-	-	891,499	70,229	-	961,728
Balance, September 30, 2014	**39,762,771**	**$ 110,392,414**	**$ 12,861,607**	**$ 7,451,804**	**$ 612,023**	**$ (120,504,715)**	**$ 10,813,133**

See the accompanying notes to these consolidated financial statements.

Esrey Energy Ltd. (Formerly LNG Energy Ltd.)

Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Note	**Year ended September 30, 2014**	Year ended September 30, 2013 (Note 3(o)(iii)(c))
Operating activities			
Loss before income taxes		**$ (8,183,241)**	$ (2,637,492)
Adjustments to net loss for non-cash items			
Depreciation	8	**37,221**	33,029
Loss on disposal of fixed assets	8	**37,542**	-
Share-based payments	12(d)	**131,811**	115,741
Impairment of property, plant and equipment	8	**-**	3,347
Impairment of exploration and evaluation assets	7	**176,533**	-
Accretion expense	10	**1,721**	280
Interest expense	11(a)	**345,984**	475,324
Interest income		**(12,463)**	(13,274)
Gain on acquisition of Enterprise	6	**-**	(6,517,113)
Loss on settlement of debt	11(a)	**704,730**	-
Foreign exchange gain		**(434,392)**	(286,502)
Loss from discontinued operations	15	**4,160,967**	6,592,299
Net changes in non-cash working capital items	17	**(416,721)**	(536,780)
		(3,450,308)	(2,771,141)
Adjustments to net loss for cash items			
Interest income received		**11,603**	40,032
Interest expense paid		**(561)**	-
Realized foreign exchange gain		**128,560**	-
Taxes received		**398,617**	-
		(2,912,089)	(2,731,109)
Financing activities			
Share consolidation payments		**(9,658)**	-
Repayment of loan	11(b)	**-**	(2,166,353)
		(9,658)	(2,166,353)
Investing activities:			
Proceeds from PNG Farm-in	7	**2,710,250**	7,522,079
Advances to associate and joint ventures	9, 15	**(899,261)**	-
Proceeds from sale of Telemu shares		**-**	3,938,400
Cash acquired on the acquisition of Enterprise		**-**	3,763,688
Exploration and evaluation expenditures	7	**(398,363)**	(3,517,426)
Property, plant and equipment additions	8	**(14,038)**	(277)
Proceeds from sale of property, plant and equipment		**31,090**	-
Changes in restricted cash balances		**1,680,065**	-
Net changes in non-cash working capital items	17	**338,901**	426,604
		3,448,644	12,133,068
Foreign exchange effect on cash and cash equivalents		**533,542**	(421,896)
Net increase in cash and cash equivalents		1,060,439	6,813,710
Cash and cash equivalents, beginning of year		7,039,375	225,665
Cash and cash equivalents, end of year		**$ 8,099,814**	$ 7,039,375

See the accompanying notes to the 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 and going concern

(a) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

These 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 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.

(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 (Note 7). 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. 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 consolidated financial statements.

3. Summary of significant accounting policies

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. In assessing control, potential voting rights that are currently exercisable are taken into account. 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. Please refer to Note 5(a) for further details on the Company's subsidiaries.

(b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration of 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 policies (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 shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

(c) Joint arrangements

A joint arrangement is a contractual arrangement where two or more parties undertake an economic activity that is subject to joint control. Joint control exists when the parties involved in the contractual arrangement agree to share control over the economic activity, and the financial and operating decisions are agreed to be made by unanimous consent.

There are two types of joint arrangements: joint operations and joint ventures. A joint operation exists when the parties with joint control have rights to the assets and the obligations for the liabilities. A joint venture exists when the parties with joint control have the rights to the net assets of the arrangement.

The Company has an interest in three joint ventures and accounts for these investments using the equity method. For further details on the Company's joint ventures, please refer to Note 3(o)(iii) and Note 9.

(d) Foreign currency translation

(i) 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. The assets and liabilities included in these consolidated financial statements are translated from functional currency to the Company's presentation currency using the exchange rates at period end. Income, expenses and cash flow items included in these consolidated financial statements are translated from functional currency to the Company's presentation currency using the exchange rate that approximates the exchange rates at the dates of the transactions (i.e. the average rate for the 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 remain in OCI until a subsidiary is partially or fully disposed of. Upon disposal, the corresponding foreign currency translation adjustment is removed from OCI and is recognized as a realized foreign exchange gain or loss on the statement of comprehensive loss.

3. Significant accounting policies (continued)

(d) Foreign currency translation (continued)

(ii) Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

(e) Financial instruments

(i) 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 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, 2014 the Company has an investment in an associate and three investments in joint ventures. 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, 2014, the Company does not have any financial assets classified as fair value through profit or loss.

(ii) 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.

(f) Cash and cash equivalents

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

(g) Exploration and evaluation of assets

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

3. Significant accounting policies (continued)

(g) Exploration and evaluation of assets (continued)

(i) Pre-license expenditures

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

(ii) 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 asset's carrying value exceeds its recoverable amount, an impairment is recorded.

(iii) 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.

(iv) Impairment

Each reporting date, the Company assesses whether there is an indication 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 its fair value less costs of disposal or value-in-use. In assessing value-in-use, the estimated future cash flows of the asset 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. When an asset does not generate separately identifiable cash flows, the impairment assessment is completed on cash generating units ("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.

3. Significant accounting policies (continued)

(g) Exploration and evaluation of assets (continued)

(v) Reversal of 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.

(h) 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% - 50% double declining
Vehicles	30% double declining
Computer equipment and software	15% - 50% double declining
Technical licenses	Straight line over 10 years

(i) Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have 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 obligations at the reporting date.

(i) Decommissioning obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with dismantling, decommissioning and site disturbance remediation 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 accretion expense 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.

(j) 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.

3. Significant accounting policies (continued)

(j) *Income taxes (continued)*

Deferred income taxes are provided for 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.

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.

(k) 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 the basic and diluted earnings (loss) per share.

(l) Comprehensive income

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).

3. Significant accounting policies (continued)

(m) 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 employees 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

(n) Revenue recognition

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

(o) Application of new and revised IFRSs

Effective October 1, 2013, the Company adopted the following new and revised IFRSs that were issued by the IASB.

(i) IFRS 7 Financial Instruments: Disclosures

The amendment to IFRS 7 enhances the disclosure required when offsetting financial assets and liabilities. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

(ii) 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. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

(iii) 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.

Joint ventures are accounted for using the equity method. Parties to a joint operation account for their share of assets, liabilities, revenues and expenses in accordance with their contractual rights and obligations.

(Expressed in Canadian dollars, except number of shares and per share amounts)

3. Significant accounting policies (continued)

(o) Application of new and revised IFRSs (continued)

(iii) IFRS 11 Joint Arrangements (continued)

The Company's joint arrangements previously classified as jointly controlled entities were previously accounted for using the proportionate consolidation method. Three of these joint arrangements have been reclassified as joint ventures and one of these joint arrangements has been reclassified as an associate. Both the joint ventures and the associate are now accounted for using the equity method. This change has had an effect on the Company's assets, liabilities, expenses, other income, other comprehensive loss, cash flows and basic or diluted earnings per share.

The application of IFRS 11 was applied retrospectively as at October 1, 2012 and the effects on the comparative consolidated statements of comprehensive loss, comparative consolidated statements of financial position and comparative consolidated statements of cash flows, have been outlined below.

a. Impact on consolidated statement of financial position

	October 1, 2012		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
Cash and cash equivalents	798,327	(572,662)	225,665
Amounts receivable	337,149	(221,672)	115,477
Prepaid expenses and other deposits	452,267	(27,830)	424,437
Exploration and evaluation assets	23,217,868	(13,247,412)	9,970,456
Investment in associate and joint ventures	-	7,964,317	7,964,317
Total assets	**25,000,343**	**(6,105,259)**	**18,895,084**
Accounts payable and accrued liabilities	947,764	(409,461)	538,303
Decommissioning obligations	38,186	(38,186)	-
Total liabilities	**6,108,798**	**(447,647)**	**5,661,151**
Accumulated other comprehensive income	7,455,396	525,694	7,981,090
Deficit	(104,172,261)	(6,183,306)	(110,355,567)
Total equity	**18,891,545**	**(5,657,612)**	**13,233,933**

(Expressed in Canadian dollars, except number of shares and per share amounts)

3. Significant accounting policies (continued)

(o) Application of new and revised IFRSs (continued)

(iii) IFRS 11 Joint Arrangements (continued)

a. Impact on consolidated statement of financial position (continued)

	September 30, 2013		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
Cash and cash equivalents	7,477,341	(437,966)	7,039,375
Amounts receivable	542,407	(153,544)	388,863
Prepaid expenses and other deposits	450,448	(27,484)	422,964
Exploration and evaluation assets	15,538,612	(6,410,487)	9,128,125
Investment in joint ventures	-	1,911,395	1,911,395
Total assets	**25,707,706**	**(5,118,086)**	**20,589,620**
Accounts payable and accrued liabilities	1,008,005	(307,965)	700,040
Decommissioning obligations	111,216	(58,251)	52,965
Total liabilities	**7,053,845**	**(366,216)**	**6,687,629**
Accumulated other comprehensive income	6,670,019	(109,714)	6,560,305
Deficit	(108,108,671)	(4,642,156)	(112,750,827)
Total shareholders' equity	**18,653,861**	**(4,751,870)**	**13,901,991**

(Expressed in Canadian dollars, except number of shares and per share amounts)

3. Significant accounting policies (continued)

(o) Application of new and revised IFRSs (continued)

(iii) IFRS 11 Joint Arrangements (continued)

b. Impact on consolidated statement of comprehensive income (loss)

	Year ended September 30, 2013		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
Depletion and depreciation	(33,029)	-	(33,029)
General and administrative expenses	(1,051,959)	161,291	(890,668)
Professional fees	(1,310,008)	166,104	(1,143,904)
Impairment of exploration and evaluation assets	(7,921,658)	7,921,658	-
Accretion expense	(4,816)	4,536	(280)
Interest income	40,032	(26,758)	13,274
Foreign exchange gain	377,729	(91,227)	286,502
Income tax	-	(2,155)	(2,155)
Loss from discontinued operations	-	(6,592,299)	(6,592,299)
Net loss attributable to equity shareholders of the Company	(3,936,410)	1,541,150	(2,395,260)
Foreign currency translation gain for equity shareholders of the Company	(785,377)	(635,408)	(1,420,785)

(Expressed in Canadian dollars, except number of shares and per share amounts)

3. Significant accounting policies (continued)

(o) Application of new and revised IFRSs (continued)

(iii) IFRS 11 Joint Arrangements (continued)

c. Impact on consolidated statement of cash flows

	Year ended September 30, 2013		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
Net loss before income taxes	(4,180,797)	1,543,305	(2,637,492)
Impairment of exploration and evaluation assets	7,921,658	(7,921,658)	-
Accretion expense	4,816	(4,536)	280
Interest expense	377,081	98,243	475,324
Interest income	(40,032)	26,758	(13,274)
Foreign exchange gain	(216,663)	(69,839)	(286,502)
Loss from discontinued operations	-	6,592,299	6,592,299
Net changes in non-cash working capital - operating	(590,696)	53,916	(536,780)
Net cash flows from operating activities	**(3,049,597)**	**318,488**	**(2,731,109)**
Exploration and evaluation expenditures	(3,772,596)	255,170	(3,517,426)
Net changes in non-cash working capital - investing	447,498	(20,894)	426,604
Net cash flows from investing activities	**11,898,792**	**234,276**	**12,133,068**
Foreign exchange effect on cash and cash equivalents	(3,828)	(418,068)	(421,896)
Net increase in cash and cash equivalents	**6,679,014**	**687,460**	**7,366,474**
Cash and cash equivalents, beginning of year	798,327	(572,662)	225,665
Cash and cash equivalents, end of year	**7,477,341**	**114,798**	**7,592,139**

(iv) 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. As the new standard affects only disclosure, there is no effect on the Company’s financial position or performance.

3. Significant accounting policies (continued)

(o) Application of new and revised IFRSs (continued)

(v) 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 application of this IFRS did not have any material impact on the amounts reported for the current or prior years.

(vi) Amended Standard IAS 1 Presentation of Financial Statements

The amendments to IAS 1 pertain to the number of comparative financial statements required in different circumstances and disclosure required in the statement of comprehensive loss. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

(vii) Amended Standard IAS 16 Property, Plant and Equipment

The amendments to IAS 16 clarify when spare parts, stand-by equipment and servicing equipment are to be classified as inventory or property, plant and equipment. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

(viii) Amended Standard IAS 19 Employee Benefits

IAS 19 outlines the accounting treatment and required disclosures for employee benefits. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

(ix) Amended Standard IAS 27 Separate Financial Statements

IAS 27 outlines the accounting principles to be applied with regards to investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate, non-consolidated, financial statements. The previous standard was titled IAS 27 Consolidated and Separate Financial Statements. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years and is not expected to affect the accounting for future transactions or arrangements.

(x) 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. The impact that the adoption of this standard has had on the Company's financial statements has been discussed in Note 3(o) of these consolidated financial statements.

(xi) Amended Standard IAS 32 Financial Instruments: Presentation

The amendments to IAS 32 clarify the treatment of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

3. Significant accounting policies (continued)

(p) Future accounting pronouncements

Certain pronouncements have been issued by the IASB that are mandatory for accounting years beginning after October 1, 2014 or later years.

(i) Effective for annual periods beginning on or after October 1, 2014

- *IFRS 2 Share-based Payment*

  The amendment to IFRS 2 re-defines the definition of "vesting condition."

- *IFRS 3 Business Combinations*

  The amendments to IFRS 3 provide further clarification on the accounting treatment for contingent consideration, and provides a scope exception for joint ventures.

- *IFRS 8 Operating Segments*

  The amendments to IFRS 8 provide further clarification on the disclosure required for the aggregation of segments and the reconciliation of segment assets.

- *IFRS 13 Fair Value Measurement*

  The amendment to IFRS 13 provides further details on the scope of the portfolio exception.

- *IAS 16 Property, Plant and Equipment*

  The amendment to IAS 16 deals with the proportionate restatement of accumulated depreciation on revaluation.

- *IAS 24 Related Party Disclosures*

  The amendment to IAS 24 deals with the disclosure required for management entities.

- *IAS 32 Financial Instruments: Presentation*

  The amendments to IAS 32 pertain to the application guidance on the offsetting of financial assets and financial liabilities, focused 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.

- *IAS 38 Intangible Assets*

  The amendment to IAS 38 deals with the proportionate restatement of accumulated depreciation on revaluation.

3. Significant accounting policies (continued)

(p) Future accounting pronouncements (continued)

(ii) Effective for annual periods beginning on or after October 1, 2015

- *IFRS 7 Financial Instruments Disclosures*

  The amendments to IFRS 7 outline the disclosures required when initially applying IFRS 9 Financial Instruments.

(iii) Effective for annual periods beginning on or after October 1, 2017

- *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 informative and relevant information.

(iv) Effective for annual periods beginning on or after October 1, 2018

- *IFRS 9 Financial Instruments*

  IFRS 9 is the first step in the process to replace IAS 39 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 IAS 39 Financial instruments: recognition and measurement, derecognition of financial assets and financial liabilities.

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

4. Critical accounting estimates and 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, 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.

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

4. Critical accounting estimates and judgments (continued)

(a) 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.

(b) 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.

(c) 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.

(d) Decommissioning obligations

Decommissioning obligations are 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.

(e) Share-based payments

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 12(d)(ii).

(Expressed in Canadian dollars, except number of shares and per share amounts)

5. Subsidiaries, associates and joint ventures

(a) Subsidiaries

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held September 30, 2014	September 30, 2013
LNG Energy US Inc. ("LNG US")	Holding Company	Delaware	**100%**	100%
LNG Energy (BC) Ltd. ("LNG BC")	Holding Company	British Columbia	**100%**	100%
LNG Exploration Ltd. ("LNG Exploration") formerly known as Enterprise Energy Resources Ltd.	Holding Company	British Columbia	**100%**	100%
Kunagu Real Estate S.A. ("Kunagu")	Holding Company	Panama	**100%**	100%
Kaynes Capital S.a.r.l. ("Kaynes")	Holding Company	Luxembourg	**100%**	100%
LNG Energy (PNG) Limited ("LNG PNG")	Operating Company	Papua New Guinea	**100%**	100%
LNG Energy No. 2 Limited ("LNG No. 2")	Operating Company	Papua New Guinea	**100%**	100%
Basin Tishomingo Holdings Inc. ("BTH")	Holding Company	Delaware	**100%**	100%
BWB Exploration LLC ("BWB")	Operating Company	Delaware	**100%**	100%
EERL (BVI) Ltd. ("EERL BVI")	Holding Company	British Virgin Islands	**100%**	100%
Evolution Petroleum Corporation ("EPC")	Holding Company	British Virgin Islands	**100%**	100%
Evolution Oil Group LLC ("EVO")	Operating Company	Delaware	**100%**	100%
Enterprise Bakken Holdings Ltd. ("EER Bakken") (i)	Holding Company	Barbados	**-**	100%
MPR Finance S.a.r.l ("MPR") (i)	Holding Company	Luxembourg	**-**	100%
FOZ Finance S.a.r.l. ("FOZ") (i)	Holding Company	Luxembourg	**-**	100%
EERL Energy Inc. ("EERL Energy") (i)	General Partner	British Columbia	**-**	100%
EERL Energy Limited Partnership ("EERL Partnership") (i)	Limited Partner	British Columbia	**-**	100%
Telemu No. 18 Limited ("Telemu")	Operating Company	Papua New Guinea	**84.25%**	84.25%

(i) Dissolved during the year ended September 30, 2014.

(Expressed in Canadian dollars, except number of shares and per share amounts)

5. Subsidiaries, associates and joint ventures (continued)

(b) Associate

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			September 30, 2014	September 30, 2013
Saponis Investments Sp. z.o.o. ("Saponis") (i)	Operating Company	Poland	**42.96%**	20.19%

(i) On December 31, 2013, the Company and BNK acquired the interests of the other two shareholders 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%.

(c) Joint ventures

Name of joint venture	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			September 30, 2014	September 30, 2013
Joyce Podlasie LLC ("Joyce")	Holding Company	Delaware	50%	50%
Maryani Podlasie LLC ("Maryani")	Holding Company	Delaware	50%	50%
EERL Holdings (BVI) Ltd. ("EERL Holdings")	Holding Company	British Virgin Islands	50%	50%

(Expressed in Canadian dollars, except number of shares and per share amounts)

6. Acquisition of 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 was as follows:

Purchase price		
Esrey shares issued		11,931,702
Share price	$	0.30
	$	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**

(Expressed in Canadian dollars, except number of shares and per share amounts)

7. Exploration and evaluation assets

		Papua New Guinea		Poland		United States		Bulgaria		Total
Cost										
Balance as previously recorded, September 30, 2012	**$**	**55,622,840**	**$**	**14,573,273**	**$**	**-**	**$**	**7,570,435**	**$**	**77,766,548**
Adjustment (Note 3(o)(iii)(a))		-		(13,247,412)		-		-		(13,247,412)
Adjusted balance, September 30, 2012	**$**	**55,622,840**	**$**	**1,325,861**	**$**	**-**	**$**	**7,570,435**	**$**	**64,519,136**
Acquisition costs		1,890,000		-		2,242,983		-		4,132,983
Additions		3,345,430		40,799		131,197		-		3,517,426
Change in decommissioning obligations		-		-		15,529		-		15,529
Capitalized share-based payments		19,513		45,809		-		-		65,322
Proceeds from farm-in		(7,522,079)		-		-		-		(7,522,079)
Foreign exchange movement		(8,913,098)		(126,460)		2,135		-		(9,037,423)
Balance, September 30, 2013	**$**	**44,442,606**	**$**	**1,286,009**	**$**	**2,391,844**	**$**	**7,570,435**	**$**	**55,690,894**
Additions		263,816		64,965		69,582		-		398,363
Capitalized share-based payments		253		311		-		-		564
Proceeds from farm-in		(2,710,250)		-		-		-		(2,710,250)
Foreign exchange movement		5,658,851		126,460		188,271		-		5,973,582
Balance, September 30, 2014	**$**	**47,655,276**	**$**	**1,477,745**	**$**	**2,649,697**	**$**	**7,570,435**	**$**	**59,353,153**
Accumulated depletion and impairment losses										
Balance as previously recorded, September 30, 2012	**$**	**46,978,245**	**$**	**-**	**$**	**-**	**$**	**7,570,435**	**$**	**54,548,680**
Foreign exchange movement		(7,985,911)		-		-		-		(7,985,911)
Balance, September 30, 2013	**$**	**38,992,334**	**$**	**-**	**$**	**-**	**$**	**7,570,435**	**$**	**46,562,769**
Impairment		85,216		1,419,693		91,317		-		1,596,226
Foreign exchange movement		4,844,961		58,052		3,097		-		4,906,110
Balance, September 30, 2014	**$**	**43,922,511**	**$**	**1,477,745**	**$**	**94,414**	**$**	**7,570,435**	**$**	**53,065,105**
Carrying amounts										
Carrying value at September 30, 2012	$	8,644,595	$	1,325,861	$	-	$	-	$	9,970,456
Carrying value at September 30, 2013	$	5,450,272	$	1,286,009	$	2,391,844	$	-	$	9,128,125
Carrying value at September 30, 2014	**$**	**3,732,765**	**$**	**-**	**$**	**2,555,283**	**$**	**-**	**$**	**6,288,048**

7. Exploration and evaluation assets (continued)

(a) Papua New Guinea

(i) Licenses

As at September 30, 2014, the Company holds a 16.85% working interest in PPL 486 (previously PPL 319), an 84.25% working interest in Petroleum Prospecting Licenses ("PPL") 320, 321 and 322, and a 20% working interest in Petroleum Retention License ("PRL") 13 through permits received from the Minister of Petroleum and Energy for Papua New Guinea in November 2008.

PPL 486 was obtained in June 2014, and is the result of the top-filing of PPL 319. PPL 486 encompasses the same territory as PPL 319 did and has a six year term along with conditional work and expenditure commitments that include:

- Years 1 and 2: acquisition of a minimum of 50km of seismic and the drilling of the first exploration well;
- Years 3 and 4: analysis of the data acquired in years 1 and 2, acquisition of an additional minimum of 50km of seismic, and the drilling of a second exploration well; and
- Years 5 and 6: analysis of data from the previous four years and the drilling of a third exploration well.

The 16.85% interest in PPL 486 assumes that Heritage Oil Plc ("Heritage") will fulfill its work commitments in the future and earn its full 80% farm-in (Note 7(a)(ii)). In accordance with the amended farm-in agreement (Note 7(a)(ii)), Telemu would not be responsible for any costs prior to the spudding of the second exploration well, but would be responsible for 12% of the costs of the second exploration well and for 20% of the costs for the remainder of the work program.

PPLs 320, 321 and 322 have a six year term along with remaining conditional work and expenditure commitments for each PPL, which include various geological studies and seismic reprocessing. As required by the licenses, the Company has submitted proposed work programs for years 5 and 6 for each PPL, but has not yet received formal notification on approval of these work programs. In anticipation of approval, the Company has proceeded with the submitted 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, 2014, the Company also holds a 20% working interest in Petroleum Retention License ("PRL") 13, assuming that Heritage Oil Plc ("Heritage") will fulfill its work commitments in the future and earn its full 80% farm-in (Note 7(a)(ii)). The Company applied for a renewal of PRL 13 and received notification in June 2014 that a three year extension had been granted, effective June 16, 2014. 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. As at September 30, 2014, 10km of seismic had been acquired, satisfying a portion of the work program for PRL 13.

All five of 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.

7. Exploration and evaluation assets (continued)

(a) Papua New Guinea (continued)

(ii) Business transactions

On January 24, 2013, the Company entered into an investment agreement whereby a third party, 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 486, 320, 321 and 322. On August 20, 2013, the Company re-acquired 15.75% of its equity interest in Telemu (Note 6).

On April 22, 2013, the Company closed a farm-in agreement with Heritage in which Heritage obtained an 80% participating interest in both PPL 486 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 Company's completed 22km seismic program totaling $7,522,079. In addition to the cash payment, Heritage also committed to fund the acquisition of a minimum of an additional 78km of seismic within the license areas and the drilling and completion of one exploration well in PPL 486 to a depth sufficient to test identified exploration targets. In May 2014, Heritage informed the Company it had acquired a total of 235km of seismic, of which 215km was on PPL 486 and 20km was on PRL 13.

On May 30, 2014, the Company's subsidiaries, Telemu No. 18 Limited ("Telemu"), LNG Energy (PNG) Limited ("LNG PNG") and LNG Energy No. 2 Limited ("LNG No. 2"), entered into an amendment to the farm-in agreement with Heritage. In exchange for the extension of the deadline to spud the first exploration well from October 1, 2014, to December 31, 2015, the farm-in agreement was amended as follows:

- Telemu received a further cash payment of US$2,500,000 (Cdn$2,710,250);
- Heritage will carry Telemu for 30% of Telemu's 20% interest in a second exploration well, in the event that a second well is drilled; and,
- Heritage will fund 100% of any joint operating costs incurred after the fulfillment of its obligations under the farm-in agreement in respect of the first exploration well until the earlier of the spud of the second exploration well or the 180th day following the date of testing and suspension or abandonment of the first exploration well.

(iii) Capitalization of share-based payments

During the year ended September 30, 2014, $253 of share-based payment expense was capitalized ($19,513 for the year ended September 30, 2013). During the year ended September 30, 2014, $264,440 of general and administrative costs was capitalized ($70,091 for the year ended September 30, 2013).

(b) Poland

The Poland exploration and evaluation asset balance consists of capitalized costs incurred by the Company related to its interest in concessions in Poland that are held through its interest in an associate and three joint ventures. The Company's interest in these joint ventures are accounted for using the equity method (Notes 3(o)(iii) and 9).

7. Exploration and evaluation assets (continued)

(b) Poland (continued)

During the year ended September 30, 2014, $311 of stock based compensation costs were capitalized in Poland ($45,809 for the year ended September 30, 2013) and $64,965 of general and administrative costs were capitalized ($40,799 for the year ended September 30, 2013). As at September 30, 2014, the Company had commenced exiting all investments in Poland. This resulted in an impairment of $1,477,746 to the costs previously capitalized to the Poland exploration and evaluation asset.

(c) United States

On August 20, 2013, the Company completed the acquisition of Enterprise (Note 6), 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.

(i) Sheridan County

The oil and gas leases in Sheridan County included a commitment to the original vendor to drill four wells (“Initial Wells”) of which two were required to be drilled horizontally. The Initial Wells could be drilled by the Company or a third party, if the third party held any or all of EVO’s interest in the leases. The original vendor of the leases could elect to take assignment of up to a 10% working interest (and an 8% net revenue interest) in any of the Initial Wells. If the original vendor made the election to take a 10% working interest assignment on any of the Initial Wells, the Company was 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 had the ability to elect to participate and fund up to a 10% working interest (and an 8% net revenue interest) of any wells subsequent to the Initial Wells.

The first Initial Well (“Archer Well”) has been drilled. For the three remaining Initial Wells, the Company had deposited $1,494,000 (US$1,500,000) into escrow for the funding of the original owner’s 10% working interest on any of the three remaining Initial Wells. If any of the Initial Wells were not drilled, a penalty of US$500,000 for each Initial Well not drilled was to be paid to the original owner from the aforementioned escrow funds. This payment was due and payable within 30 days after the earlier of: 1) when it would be determined that one or more of the Initial Wells would not be drilled or 2) the expiration of the terms of the leases.

On January 31, 2014, the Company entered into an agreement with the original vendor of the oil and gas leases discussed above, in order to settle the corresponding drilling obligations. As a result of this agreement, US$650,000 of the restricted cash balance was released to the Company, and the remainder of the restricted cash balance was released to the original vendor. In accordance with the agreement, the Company is released from any further drilling obligations and is no longer required to fund the original vendor’s 10% working interest assignment in any of the three remaining Initial Wells. For the first Initial Well, which has been drilled, the Company will be responsible for 100% of all costs through to the earlier of well completion or plugging and abandonment.

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

7. Exploration and evaluation assets (continued)

(c) United States (continued)

(i) Sheridan County (continued)

During the year ended September 30, 2014, a portion of the Sheridan Country leases were not renewed by the Company resulting in a decrease of the Company's 100% working interest in oil and gas leases in Sheridan County from approximately 13,000 net acres to 2,280 net acres.

(ii) 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 an original 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.

(d) 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 (the "Etropole concession") in Bulgaria. The application for the Etropole concession was submitted in November 2011, amended in April 2012 and denied in July 2014. The denial was partially due to the ban on fracture stimulation enacted by the Bulgarian Parliament in January 2012. In August 2014, TransAtlantic and the Company filed a formal appeal to the denial of the Etropole concession.

In exchange for the Company's 50% undivided interest in the Etropole concession, the Company is expected to fund up to US$20 million of drilling, completion costs and additional aggregate acreage payments. As at September 30, 2014, 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.

(Expressed in Canadian dollars, except number of shares and per share amounts)

8. Property, plant and equipment

Cost		
Balance, September 30, 2012	$	401,742
Additions		277
Disposals		(26,420)
Foreign exchange movement		(46,215)
Balance, September 30, 2013	$	329,384
Additions		14,038
Disposals		(226,862)
Foreign exchange movement		14,421
Balance, September 30, 2014	**$**	**130,981**
Accumulated depreciation and impairment losses		
Balance, September 30, 2012	$	207,010
Depreciation		33,029
Disposals		(23,075)
Impairment		(3,347)
Foreign exchange movement		(29,018)
Balance, September 30, 2013	$	184,599
Depreciation		37,221
Disposals		(158,230)
Foreign exchange movement		10,637
Balance, September 30, 2014	**$**	**74,227**
Carrying amount		
Carrying value at September 30, 2012	$	194,732
Carrying value at September 30, 2013	$	144,785
Carrying value at September 30, 2014	**$**	**56,754**

9. Associate and joint ventures

Details of the Company's associate and joint ventures as at September 30, 2014 are disclosed in Note 5. The following table presents the Company's investment in associate and joint ventures as at September 30, 2014.

		September 30, 2014		September 30, 2013
Investment in Associate				
Saponis Investments Sp z.o.o.	**$**	**-**	$	-
Investment in Joint Ventures				
Joyce Podlasie, LLC		**-**		-
Maryani Podlasie, LLC		**-**		1,794,303
EERL Holdings (BVI) Ltd.		**127,347**		117,092
	$	**127,347**	$	1,911,395

(Expressed in Canadian dollars, except number of shares and per share amounts)

9. Associate and joint ventures (continued)

(a) Saponis Investments Sp z.o.o.

As at September 30, 2014, the Company holds a 42.96% interest in Saponis Investments Sp. z.o.o. ("Saponis") (20.19% - December 31, 2013). The remaining 57.04% interest in Saponis is owned by BNK Petroleum Inc. ("BNK").

On December 31, 2013, the Company and BNK acquired the interests of the two other shareholders 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 from 20.19% to 42.96% and resulted in a gain on acquisition. In addition, the departing partners forgave all amounts owing to them under loans provided to Saponis, which resulted in a write-off of loans by Saponis. The Company's portion of the gain on acquisition and forgiveness of debt were included in the Company's share of income of associates.

As at September 30, 2014, Saponis held one oil and gas concession in Poland: Slupsk. A four-year extension of the Slupsk license was granted in June 2014 and included conditional work and expenditure commitments to complete 20km of 2D seismic or to spud a well by March 2015.

Previously, Saponis held two additional concessions: Slawno and Starogard. 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. In accordance with this decision, these concessions were not renewed and a request to relinquish the concessions was filed with the Ministry of Environment in May 2014. As of September 30, 2014, the Slawno and Starogard concessions reached the end of their primary terms and had been allowed to lapse. The final relinquishment of the Slawno and Starogard concessions is expected to take place in 2014 subsequent to the completion of well abandonment, environmental remediation and the filing of final reports. In the year ended September 30, 2013, the costs associated with the Slawno and Starogard concessions were written-off in full. This impairment expense was included as part of the Company's share of the equity loss from the associate during the year ended September 30, 2013.

As at September 30, 2014, the Company had made the decision to exit its investment in Saponis, which resulted in the investment in Saponis being impaired to Nil as at September 30, 2014.

Summarized financial information for Saponis is set out below. This summarized financial information represents amounts shown in the associate's financial statements and has been adjusted by the Company to be in accordance with IFRSs and the Company's accounting policies.

(i) Saponis' net assets (liabilities)

		September 30, 2014		September 30, 2013
Cash and cash equivalents	**$**	**1,488,054**	$	1,487,641
Amounts receivable		**87,731**		297,778
Prepaid expenses and other deposits		**125,870**		137,423
Exploration and evaluation assets		**21,995,053**		19,089,728
Accounts payable and accrued liabilities		**(273,606)**		(63,349)
Shareholder payables and loans		**(19,066,851)**		(27,048,286)
Net assets	**$**	**4,356,251**	$	(6,099,065)

(Expressed in Canadian dollars, except number of shares and per share amounts)

9. Associate and joint ventures (continued)

(a) Saponis Investments Sp z.o.o. (continued)

(ii) Saponis' statement of comprehensive income (loss)

	Year ended September 30, 2014	Year ended September 30, 2013
Expenses	**$ (2,155,219)**	$ (1,385,120)
Other income	**996,886**	177,483
Forgiveness of debt	**20,280,042**	-
Impairment	**-**	(27,329,595)
Tax (expense) recovery	**(100,561)**	101,833
Foreign exchange (loss) gain	**(238,178)**	425,378
Net income (loss)	**18,782,970**	(28,010,021)
Other comprehensive (loss) income	**(999,750)**	655,146
Total comprehensive income (loss)	**$ 17,783,220**	$ (27,354,875)

(iii) Reconciliation of summarized financial information

The following table reconciles Saponis' summarized financial information to the Company's carrying value of the joint venture.

	September 30, 2014	September 30, 2013
Opening net (liabilities) assets	**$ (6,099,065)**	$ 21,255,810
Net income (loss)	**18,782,970**	(28,010,021)
Movement in supplementary capital	**(7,327,903)**	-
Comprehensive (loss) income	**(999,750)**	655,146
	4,356,252	(6,099,065)
Percentage interest in associate	**42.96%**	20.19%
Interest in associate	**1,871,446**	(1,231,401)
Gain on acquisition of 22.77%	**3,190,826**	-
Impairment of investment	**(6,536,385)**	
Derecognition of associate losses	**-**	1,257,029
Foreign exchange	**1,474,113**	(25,628)
Investment in associate	$ -	$ (0)

(b) Joyce Podlasie LLC

In February 2011, the Company, through its subsidiary, Kaynes, acquired a 50% interest in Joyce. San Leon Energy Plc ("San Leon") owns the other 50% of Joyce. The terms and conditions of participation require the Company to fund 50% of all costs related to the Ilawa concession held by Joyce, which the Company is the operator of.

(Expressed in Canadian dollars, except number of shares and per share amounts)

9. Associate and joint ventures (continued)

(b) Joyce Podlasie LLC (continued)

Joyce holds a 100% interest in the Ilawa oil and gas exploration concession. The terms of the Ilawa concession included the requirements to reprocess existing seismic data and acquire 50 km of 2D seismic by June 2012. These commitments were fully met. In June 2012, the Company filed and received a renewal for the Ilawa concession extending the term to a 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, 2014, no such well had been drilled.

As at September 30, 2013, the Company had no intention of proceeding with the Ilawa project. As a result, Joyce recognized an impairment of its exploration and evaluation assets during the year ended September 30, 2013, which reduced the Company's investment in Joyce to Nil as at September 30, 2013. As at September 30, 2014, the Company still had no intention of proceeding with the Ilawa project.

Summarized financial information for Joyce is set out below. This summarized financial information represents amounts shown in the joint venture's financial statements and is in accordance with IFRSs and the Company's accounting policies.

(i) Joyce's net liabilities

	September 30, 2014	September 30, 2013
Cash and cash equivalents	**$ 18,511**	$ 10,744
Amounts receivable	**1,651**	4,227
Exploration and evaluation assets	**(224,659)**	27,166
Accounts payable and accrued liabilities	**(102,742)**	(235,625)
Shareholder payables and loans	**(1,194,605)**	(1,002,679)
Net liabilities	**$ (1,501,844)**	$ (1,196,167)

(ii) Joyce's statement of comprehensive loss

	Year ended September 30, 2014	Year ended September 30, 2013
Expenses	**$ (163,013)**	$ (156,513)
Other income	**-**	52
Impairment	**-**	(4,586,481)
Foreign exchange (loss) gain	**(24,975)**	12,459
Net income loss	**(187,988)**	(4,730,483)
Other comprehensive loss	**(117,690)**	(169,786)
Total comprehensive loss	**$ (305,678)**	$ (4,900,269)

(Expressed in Canadian dollars, except number of shares and per share amounts)

9. Associate and joint ventures (continued)

(b) Joyce Podlasie LLC (continued)

(iii) Reconciliation of summarized financial information

The following table reconciles Joyce's summarized financial information to the Company's carrying value of the joint venture.

		September 30, 2014		September 30, 2013
Opening net (liabilities) assets	**$**	**(1,196,167)**	$	3,704,102
Net income (loss)		**(187,987)**		(4,730,483)
Comprehensive (loss) income		**(117,690)**		(169,786)
		(1,501,844)		(1,196,167)
Percentage interest in associate		**50.00%**		50.00%
Interest in associate		**(750,922)**		(598,084)
Derecognition of associate losses		**548,277**		461,509
Foreign exchange		**202,645**		136,575
Investment in joint venture	$	-	$	-

(c) Maryani Podlasie, LLC

In February 2011, the Company, through its subsidiary, Kaynes, acquired a 50% interest in Maryani. San Leon Energy Plc ("San Leon") owns the other 50% of Maryani. The terms and conditions of participation require the Company to fund 50% of all costs related to the Wegrow concession held by Maryani, which the Company is the operator of.

Maryani held a 100% interest in the Wegrow oil and gas exploration concession. The terms of the Wegrow concession included the requirements to reprocess existing seismic data and acquire 50 km of 2D seismic by June 2012, and to drill a well to a depth of 2,750m by December 2013. The seismic commitments were met, but a well was not drilled by December 2013. In June 2014, Maryani did not file for an extension of the Wegrow concession and, consequently, the Wegrow concession was allowed to lapse. As a result, Maryani recognized an impairment of its exploration and evaluation assets during the year ended September 30, 2014, which reduced the Company's investment in Maryani to Nil as at September 30, 2014.

Summarized financial information for Maryani is set out below. This summarized financial information represents amounts shown in the joint venture's financial statements and is in accordance with IFRSs and the Company's accounting policies.

(Expressed in Canadian dollars, except number of shares and per share amounts)

9. Associate and joint ventures (continued)

(c) Maryani Podlasie, LLC (continued)

(i) Maryani's net assets

		September 30, 2014		September 30, 2013
Cash and cash equivalents	$	**157,011**	$	162,442
Amounts receivable		**2,497**		4,197
Exploration and evaluation assets		**3,745,468**		4,547,267
Accounts payable and accrued liabilities		**(22,128)**		(5,751)
Shareholder payables and loans		**(1,160,411)**		(1,116,136)
Net assets	$	**2,722,437**	$	3,592,019

(ii) Maryani's statement of comprehensive loss

		Year ended September 30, 2014		Year ended September 30, 2013
Other income	$	**1,830**	$	5,628
Expenses		**(42,219)**		(46,118)
Impairment		**(840,367)**		(228,500)
Foreign exchange (loss) gain		**(9,580)**		157
Net loss		**(890,336)**		(268,832)
Other comprehensive income		**20,754**		219,414
Total comprehensive loss	$	**(869,582)**	$	(49,418)

(iii) Reconciliation of summarized financial information

The following table reconciles Maryani's summarized financial information to the carrying value of the Company's interest in the joint venture.

		September 30, 2014		September 30, 2013
Opening net assets	$	**3,592,019**	$	3,641,437
Net loss		**(890,336)**		(268,832)
Other comprehensive loss		**20,754**		219,414
		2,722,437		3,592,019
Percentage interest in joint venture		**50.00%**		50.00%
Interest in joint venture		**1,361,219**		1,796,010
Impairment of investment		**(1,446,668)**		-
Foreign exchange		**85,449**		(1,707)
Investment in joint venture	$	**-**	$	1,794,303

(Expressed in Canadian dollars, except number of shares and per share amounts)

9. Associate and joint ventures (continued)

(d) EERL Holdings (BVI) Ltd

On August 20, 2013, the Company acquired a 50% interest in EERL Holdings as part of the amalgamation of Enterprise Energy Resources Ltd. ("Enterprise") (Note 6). The remaining 50% ownership in EERL Holdings is owned by a third party. EERL Holdings owns 31.5% of Telemu.

Summarized financial information for EERL Holdings is set out below. This summarized financial information represents amounts shown in the joint venture's financial statements and is in accordance with IFRSs and the Company's accounting policies.

(i) EERL Holdings (BVI) Ltd.'s net assets

		September 30, 2014		September 30, 2013
Cash and cash equivalents	**$**	**57,052**	$	107,689
Amounts receivable		**201,283**		181,745
Investment in Telemu		**1,120,710**		1,089,412
Accounts payable and accrued liabilities		**-**		(55,252)
Net assets	**$**	**1,379,045**	$	1,323,594

(ii) EERL Holdings (BVI) Ltd.'s statement of comprehensive loss

		Year ended September 30, 2014		Year ended September 30, 2013
Expenses	**$**	**(1,842)**	$	(15)
EERL Holdings' share of Telemu's loss		**(61,466)**		(637,070)
Foreign exchange gain		**5,483**		-
Net loss		**(57,825)**		(637,085)
Other comprehensive income		**113,276**		-
Total comprehensive loss	**$**	**55,451**	$	(637,085)

(Expressed in Canadian dollars, except number of shares and per share amounts)

9. Associate and joint ventures (continued)

(c) EERL Holdings (BVI) Ltd (continued)

(iii) Reconciliation of summarized financial information

The following table reconciles EERL Holdings' summarized financial information to the carrying value of the Company's interest in the joint venture.

	September 30, 2014	September 30, 2013
Opening net assets	**$ 1,323,594**	$ -
Acquisition of Enterprise	**-**	1,960,679
Net loss	**(57,825)**	(637,085)
Other comprehensive income	**113,276**	-
	$ 1,379,045	$ 1,323,594
Percentage interest in joint venture	**50.00%**	50.00%
Interest in joint venture	**689,523**	661,797
Less: investment in Telemu	**(562,176)**	(544,705)
Investment in joint venture	**$ 127,347**	$ 117,092

10. Decommissioning obligations

Changes to the decommissioning obligation for the Archer Well in Montana, USA, are as follows:

	September 30, 2014	September 30, 2013
Balance, beginning of the period	**$ 52,965**	$ -
Addition of the USA decommissioning obligation	**-**	52,685
Change in estimates	**-**	-
Accretion expense	**1,721**	280
Foreign exchange	**1,190**	-
Total decomissioning obligations	**55,876**	52,965
Less current decommissioning obligations	**(55,876)**	(52,965)
Long-term decommissioning obligations	**$ -**	$ -

The undiscounted cash flow required to settle the obligation for the Archer Well in Montana, USA is approximately US$50,000 with an estimated abandonment date during the year ending September 30, 2015. The calculation was assessed using a risk-free interest rate of 2.98% and an assumed inflation rate of 2.1% per annum.

(Expressed in Canadian dollars, except number of shares and per share amounts)

11. Loans payable

		September 30, 2014		September 30, 2013
Current credit facilities	**$**	**3,656,852**	$	-
Current loan payable		**196,978**		181,899
Current loans payable		**3,853,830**		181,899
Non-current credit facilities		-		5,752,725
Total loans payable	**$**	**3,853,830**	$	5,934,624

(a) Credit facilities

On February 27, 2012, the Company's wholly owned subsidiary, Kaynes, entered into two non-revolving credit facilities totaling US$5,000,000 ("the Credit Facilities"). Funds drawn under the Credit Facilities are secured against all of the shares of Kaynes. The Credit Facilities were repayable within one year on or before February 27, 2013. On January 24, 2013, an extension to the credit facilities was agreed upon where the maturity date was extended to 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. As a result, in the event that Kaynes disposes of certain assets, Kaynes will be required to pay the lenders a contingent bonus of 25% of the proceeds arising from the disposition of such assets.

On April 28, 2014 the Company settled US$2,636,363 of the Company's US$5,000,000 non-revolving credit facilities through the issuance of an aggregate 10,943,396 common shares of Esrey at a deemed price of Cdn$0.265 per common share. The closing price on the day of settlement was Cdn$0.33 per common share, which resulted in a loss of $704,730 being recorded. As at September 30, 2014, Cdn$3,656,852 of the Credit Facilities remains outstanding.

For the year ended September 30, 2014, the interest expense related to the Credit Facilities was $345,984 ($377,081 for the year ended September 30, 2013) and is payable upon maturity. Interest is accrued at a fixed rate of 7% per annum.

Funds drawn under the credit facilities are secured against all of the shares of Kaynes.

(b) Loan

On January 24, 2013, the Company entered into an investment agreement whereby, 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). As part of the investment agreement, a loan of $2,295,103 was payable from Telemu to EERL Holdings. This loan formed part of the funding of US$4,000,000. This loan is non-interest bearing and was payable in January 2014. As at September 30, 2014, $196,978 remains outstanding (September 30, 2013 - $181,899).

12. Share capital

(a) Authorized

- Unlimited number of common shares with no par value.

(Expressed in Canadian dollars, except number of shares and per share amounts)

12. Share capital (continued)

(b) Stock consolidation and split

On November 18, 2013, pursuant to a special resolution passed by shareholders on November 6, 2013, the Company consolidated its common shares on a 1,000 old for 1 new basis (the "Consolidation"). Shareholders holding less than one full share post-Consolidation were entitled to a cash payment of $0.01 per share on a pre-Consolidation basis in lieu of a fractional share. Following the Consolidation, the Company immediately completed a stock split on the basis of 1 old for 50 new, with fractional shares being rounded to the nearest whole number (the "Stock Split"). The Consolidation and Stock Split achieved a 20 to 1 consolidation (the "Effective Consolidation"). Prior to Effective Consolidation, the Company had 577,353,410 common shares issued and outstanding. Subsequent to the Effective Consolidation, the Company had 28,819,375 common shares issued and outstanding.

All comparative references to the number of shares, options, weighted average number of common shares and loss per share have been restated for the Effective Consolidation.

(c) Issuance of shares

On April 28, 2014 the Company issued an aggregate of 10,943,396 common shares at a deemed price of Cdn$0.265 per common share in settlement of US$2,636,363 of the Company's US$5,000,000 non-revolving credit facilities. The Company recorded a $704,730 loss upon the issuance of the 10,943,396 common shares since the fair value of the shares issued was $3,611,321 based on a closing price of Cdn$0.33 per common share on the day of settlement.

(d) Share options

(i) Movements in share options during the period

The changes in share options during the years ended September 30, 2014 and 2013 were as follows:

	September 30, 2014		September 30, 2013	
	Number of Options	**Average Exercise Price**	Number of Options	Average Exercise Price
Balance, beginning of year	1,457,000	$4.70	1,163,750	$7.50
Granted	994,000	$0.12	703,750	$2.23
Expired	(129,250)	$1.76	(262,000)	$9.81
Forfeited	(185,000)	$8.31	(148,500)	$5.95
Surrendered	(880,250)	$5.01	-	-
Balance, end of year	**1,256,500**	**$0.63**	**1,457,000**	**$4.70**

Options granted and vested during the year ended September 30, 2014, resulted in share-based payment expense of $132,375 (year ended September 30, 2013 - $181,063) of which $564 was capitalized (year ended September 30, 2013 - $65,322). During the year ended September 30, 2013, $151,000 of share-based payment expense resulting from the acquisition of Enterprise was capitalized (Note 7). This resulted in a change within contributed surplus of $132,375 for the year ended September 30, 2014 ($332,063 for the year ended September 30, 2013).

(Expressed in Canadian dollars, except number of shares and per share amounts)

12. Share capital (continued)

(d) Share options (continued)

(i) Movements in share options during the period (continued)

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

(ii) Fair value of share options granted in the period

On January 8, 2014, the Company granted 994,000 stock options to directors, officers, employees and consultants of the Company at an exercise price of Cdn$0.12 per share. One third of these options vested immediately, one third vested on July 8, 2014 and one third vest on January 8, 2015. The options expire on January 8, 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:

	January 8, 2014	August 20, 2013
Exercise price per option	$0.12	$1.20, $2.40
Share price at date of grant	$0.15	$0.30
Expected life	5 years	1.08 - 2.91 years
Risk-free interest rate	1.45%	1.22%
Dividend yield	Nil	Nil
Expected volatility	196.38%	184.58 % - 271.88%
Estimated fair value per option	$0.15	$0.21, $0.22

(iii) Share options outstanding at the end of the period

The following table summarizes information about outstanding and exercisable options at September 30, 2014.

Options outstanding	**Options exercisable**	**Exercise price**	**Expiry date**
47,500	47,500	$2.40	July 18, 2016
231,250	231,250	$2.40	April 19, 2016
977,750	651,833	$0.12	January 8, 2019
1,256,500	**930,583**		

The weighted average exercise price of options exercisable at September 30, 2014 is $0.80.

(Expressed in Canadian dollars, except number of shares and per share amounts)

13. Non-controlling interest

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

Balance, September 30, 2012	**$**	**-**
Non-controlling interests' share of Telemu		1,599,990
Acquisition of 15.75% of non-controlling interest		(683,082)
Non-controlling interests' share of Telemu's loss		(244,387)
Foreign exchange translation		(99,991)
Balance, September 30, 2013	**$**	**572,530**
Non-controlling interests' share of Telemu's loss		(30,736)
Foreign exchange translation		70,229
Balance, September 30, 2014	**$**	**612,023**

14. Income taxes

The income tax recognized in profit or loss during the year ended September 30, 2014, consists of a current tax recovery (current tax expense for the year ended September 30, 2013). The provision for income taxes reported differs from the amount computed by applying the Canadian federal and provincial income tax rates to the (loss) income for the year before tax due to the following:

	September 30, 2014	September 30, 2013
(Loss) income for the year before tax	$ **(4,022,274)**	$ **3,954,807**
Statutory rates	**26.0%**	**25.5%**
Expected tax (recovery) expense	**(1,045,791)**	**1,008,476**
Difference in tax rates between foreign jurisdictions and Canada	**(156,823)**	**(410,585)**
Items not deductible for income tax purposes	**79,102**	**(1,710,862)**
Adjustment to tax filings	**(8,120,371)**	**-**
Change in unrecognized tax benefit	**9,364,608**	**663,375**
Other	**(519,342)**	**451,751**
Income tax (recovery) expense	$ **(398,617)**	$ **2,155**

The statutory rate was 26% in 2014 (25.5% in 2013). The increase in the statutory rate between 2013 and 2014 was due to an increase in the general corporate tax rate in British Columbia.

(Expressed in Canadian dollars, except number of shares and per share amounts)

14. Income taxes (continued)

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

		September 30, 2014		September 30, 2013
Non-capital loss carry forwards	**$**	**127,436,706**	$	45,674,333
Capital loss carry forwards		**1,532,409**		426,032
Property, plant and equipment		**89,948**		-
Exploration and evaluation assets		**5,226,680**		32,841,546
Decommissioning obligation		**55,876**		52,965
Unrealized foreign exchange		**3,883,549**		4,317,941
Share issue costs		**294,832**		2,731,042
	$	**138,520,000**	$	86,043,859

Deferred tax assets have not been recognized as it is not probable that future taxable profits will be available to utilize the deferred tax assets.

The Company had non-operating losses in Canada, Papua New Guinea and the United States. The Company has total non-operating losses of approximately $127.4 million available to apply against future income for tax purposes. These losses expire between 2015 and 2034.

The Company's operations are conducted in a number of countries with complex tax legislation and regulations pertaining to the Company's activities. Any reassessment of the Company's tax filings by the tax authorities may result in material adjustments to net profit or loss, tax assets and operating loss carry-forwards. The Company provides for such reassessments when it is probable that a taxation authority will not sustain the Company's filing position and the amount of the tax exposure can be reasonably estimated.

15. Discontinued operations

As at September 30, 2014, the Company had made the decision to exit its Poland operations. The following table presents summarized financial information related to the discontinued operation of the Company's assets in Poland:

(a) Statement of comprehensive loss

	Note		Year ended September 30, 2014		Year ended September 30, 2013
Share of associate and joint ventures' income (loss)	9	**$**	**6,088,776**	$	(6,436,343)
Impairment of investment in associate and joint ventures	9		**(7,983,053)**		-
Bad debt expense			**(846,997)**		(155,956)
Impairment of exploration and evaluation assets	7		**(1,419,693)**		-
Loss from discontinued operations		**$**	**(4,160,967)**	$	(6,592,299)

(Expressed in Canadian dollars, except number of shares and per share amounts)

15. Discontinued operations (continued)

(b) Statement of cash flows

	Year ended September 30, 2014	Year ended September 30, 2013
Advances to associate and joint ventures	**$ (899,261)**	$ -
Cash flows from discontinued operations	**$ (899,261)**	$ -

16. 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:

	Year ended September 30, 2014	Year ended September 30, 2013
Net loss attributable to equity shareholders		
From continuing operations	**$ (3,592,921)**	$ 4,197,039
From discontinued operations	**(4,160,967)**	(6,592,299)
	$ (7,753,888)	$ (2,395,260)
Weighted average number of ordinary shares	**33,502,904**	18,276,242
Effect of dilutive securities		
Stock options	**-**	-
Diluted weighted average number of ordinary shares	**33,502,904**	18,276,242
Loss per share		
Basic and diluted from continuing operations	**$ (0.11)**	$ 0.23
Basic and diluted from discontinued operations	**$ (0.12)**	$ (0.36)

The following potential ordinary shares, outstanding at September 30, 2014, are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted loss per share:

	September 30, 2014	September 30, 2013
Options	**1,256,500**	1,457,000

(Expressed in Canadian dollars, except number of shares and per share amounts)

17. Supplemental cash flow disclosure

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

	Year ended September 30, 2014	Year ended September 30, 2013
Amounts receivable	**$ 322,975**	$ (273,393)
Prepaid expenses and other deposits	**51,600**	1,471
Accounts payable and accrued liabilities	**(452,395)**	161,746
Net changes in non-cash working capital items	**$ (77,820)**	$ (110,176)
Relating to:		
Operating activities	**$ (416,721)**	$ (536,780)
Investing activities	**338,901**	426,604
Net changes in non-cash working capital items	**$ (77,820)**	$ (110,176)

18. Related party transactions

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

The Company's related party consists of Pangea Management Corp., a private consulting company owned by a family member of one of the Company's directors. The Company incurred the following fees and expenses in the normal course of operations in connection with its related parties. Expenses have been measured at the exchange amount which is determined in a cost recovery basis.

	Year ended September 30, 2014	Year ended September 30, 2013
Consulting fees	**$ 48,000**	$ 10,000
	$ 48,000	$ 10,000

Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at September 30, 2014, included Nil (September 30, 2013 – Nil) which was due to the Company's related party.

(Expressed in Canadian dollars, except number of shares and per share amounts)

19. Compensation of key management personnel

The remuneration of members of key management personnel during the years ended September 30, 2014 and 2013 was as follows:

		Year ended September 30, 2014	Year ended September 30, 2013
Management fees			
Current directors and officers		**$ 452,964**	$ 339,012
Former directors and officers	(i)	**-**	181,944
Director fees			
Current directors		**24,000**	30,000
Share-based payments	(ii)		
Current directors and officers		**107,043**	133,451
Former directors and officers		**-**	44,945
		$ 584,007	$ 729,352

(i) During the year ended September 30, 2013, a termination payment of $89,048 was paid to the former CFO.

(iii) Share-based payments are the fair value of options granted to key management personnel including the CEO, CFO and directors of the Company.

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended September 30, 2014 and 2013. Accounts payable and accrued liabilities at September 30, 2014 include $Nil of directors fees payable (September 30, 2013 - $30,000). Accounts payable and accrued liabilities at September 30, 2014 included $Nil due to private companies controlled by an officer and director of the Company (September 30, 2013 - $20,690). Amounts due to or from related parties are unsecured, non-interest bearing and due on demand.

20. Segmented information

(a) Geographic Information

The Company's assets by geographic areas as at September 30, 2014 and 2013 are as follows:

	September 30, 2014				
	Papua New Guinea	**Poland**	**United States**	**Canada**	**Total**
Current assets	$ 439,866	$ 112,851	$ 3,581,664	$ 4,423,646	**$ 8,558,027**
Exploration and evaluation assets	3,732,765	-	2,555,283	-	**6,288,048**
Property, plant and equipment	2,739	1,078	-	52,937	**56,754**
Investment in joint venture	-	-	-	127,347	**127,347**
	$ 4,175,370	**$ 113,929**	**$ 6,136,947**	**$ 4,603,930**	**$ 15,030,176**

(Expressed in Canadian dollars, except number of shares and per share amounts)

20. Segmented information (continued)

(a) Geographic Information (continued)

	September 30, 2013				
	Papua New Guinea	Poland	United States	Canada	Total
Current assets	$ 611,732	$ 2,505	$ 3,837,988	$ 3,398,977	$ 7,851,202
Exploration and evaluation assets	5,450,272	1,286,009	2,391,844	-	9,128,125
Property, plant and equipment	67,118	-	-	77,667	144,785
Investment in joint ventures	-	1,794,303	-	117,092	1,911,395
Restricted cash	-	-	1,554,113	-	1,554,113
	$ 6,129,122	$ 3,082,817	$ 7,783,945	$ 3,593,736	$ 20,589,620

The Company's expenses and income by geographic area for the years ended September 30, 2014 and 2013, are as follows:

	Year ended September 30, 2014				
	Papua New Guinea	**Poland**	**United States**	**Canada**	**Total**
Net loss from continuing operations	$ (351,896)	$ (412,027)	$ (1,228,736)	$ (1,630,998)	**$ (3,623,657)**
Loss from discontinued operations	-	(4,160,967)	-	-	**(4,160,967)**
Net loss for the year	**$ (351,896)**	**$ (4,572,994)**	**$ (1,228,736)**	**$ (1,630,998)**	**$ (7,784,624)**
Attributable to					
Non-controlling interest	(30,736)	-	-	-	**(30,736)**
Net loss attributable to equity shareholders of the Company	(321,160)	(4,572,994)	(1,228,736)	(1,630,998)	**(7,753,888)**
	$ (351,896)	**$ (4,572,994)**	**$ (1,228,736)**	**$ (1,630,998)**	**$ (7,784,624)**

(Expressed in Canadian dollars, except number of shares and per share amounts)

20. Segmented information (continued)

(a) Geographic Information (continued)

	Year ended September 30, 2013				
	Papua New Guinea	Poland	United States	Canada	Total
Net loss from continuing operations	$ (1,038,658)	$ (656,983)	$ (155,683)	$ 5,803,976	$ 3,952,652
Loss from discontinued operations	-	(6,592,299)	-	-	(6,592,299)
Net loss for the year	$ (1,038,658)	$ (7,249,282)	$ (155,683)	$ 5,803,976	$ (2,639,647)
Attributable to					
Non-controlling interest	(244,387)	-	-	-	(244,387)
Net loss attributable to equity shareholders of the Company	(794,271)	(7,249,282)	(155,683)	5,803,976	(2,395,260)
	$ (1,038,658)	$ (7,249,282)	$ (155,683)	$ 5,803,976	$ (2,639,647)

21. 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 explore its oil and gas interests, 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, option its oil and gas properties for cash and/or expenditure commitments, enter into joint venture arrangements, 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.

22. 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.

(a) Fair value of financial instruments

(i) Fair value estimation of financial instruments

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 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, except number of shares and per share amounts)

22. 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 consists of cash on deposit in major banks that are considered to be creditworthy. Amounts receivable are comprised primarily of amounts due from GST receivables from the government in Canada. 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. 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 2c).

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, 2014 and 2013.

	September 30, 2014			
	Less than 3 months	3 - 12 months	1 - 5 years	Total
Accounts payable and accrued liabilities	$ 307,337	$ -	$ -	$ 307,337
Loans payable	196,978	3,656,852	-	3,853,830
Total	$ 504,315	$ 3,656,852	$ -	$ 4,161,167

(Expressed in Canadian dollars, except number of shares and per share amounts)

22. Financial instruments (continued)

(b) Financial risk management (continued)

(ii) Liquidity and funding risk (continued)

	September 30, 2013			
	Less than 3 months	3 - 12 months	1 - 5 years	Total
Accounts payable and accrued liabilities	$ 505,307	$ 194,733	$ -	$ 700,040
Loans payable	-	181,899	5,752,725	5,934,624
Total	$ 505,307	$ 376,632	$ 5,752,725	$ 6,634,664

(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.

(2) Foreign currency risk

Some of the Company's exploration expenditures, certain acquisition costs and other operating expenses are denominated in the US dollar, Papua New Guinea kina, Polish zloty 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, Polish zloty and European Euro. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

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, 2014 and 2013:

	September 30, 2014	September 30, 2013
Cash	**$ 6,994,284**	$ 7,004,525
Restricted cash	**-**	1,554,113
Amounts receivable	**27,778**	363,208
Prepaid expenses and other deposits	**297,847**	302,885
Accounts payable and accrued liabilities	**(121,801)**	(305,092)
	$ 7,198,108	$ 8,919,639

23. Events after the reporting period

(a) Tax refund

On October 10, 2014, the Company received a tax refund of US$1,532,675.

(b) PNG licenses

The Company did not file for extensions of PPLs 320 and 322 and notified the Department of Petroleum and Energy ("DPE") of the Company's intent to relinquish these licenses in August 2014. Subsequently, PPLs 320 and 322 were allowed to lapse in November 2014. The Company submitted an application to simultaneously surrender and top-file PPL 321 in August 2014, seeking a new 6 year license. PPL 321 expired in November 2014 and, as of December 17, 2014, the Company had not received a formal response from the DPE with regards to the top-filing application for PPL 321. If the Company does not receive the new license for PPL 321, it would result in the full impairment of the capitalized costs associated with PPL 321. As at September 30, 2014, the Company had capitalized approximately $863,886 (1.9 million kina) in costs with respect to PPL 321.

(c) Default of Saponis participation agreement

On November 24, 2014, Kaynes, the Company's fully owned subsidiary, was notified that it was in default of the Saponis participation agreement (the "Participation Agreement") for failing to pay a cash call in the amount of US$122,436 (the "Cash Call"). In accordance with the Participation Agreement, if Kaynes fails to pay the Cash Call by December 24, 2014, BNK has the option to require Kaynes to withdraw from the Participation Agreement and transfer Kaynes' 42.96% interest in Saponis to BNK.

In the event that Kaynes is required to transfer its 42.96% interest in Saponis to BNK, Kaynes will be in default of its credit facilities (Note 11a).