CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015 and 2014

(in Canadian dollars)

Esrey Energy Ltd.

September 30, 2015

Table of contents

Independent auditor's report 3-4

Consolidated statements of financial position 5

Consolidated statements of comprehensive loss 6

Consolidated statements of changes in equity 7

Consolidated statements of cash flows 8

Notes to the consolidated financial statements 9-37

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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, 2015 and September 30, 2014, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, 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, 2015 and September 30, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 Esrey Energy Ltd. will be required to incur significant amounts of capital on its exploration and evaluation projects in order to meet the work commitments dictated by the terms of the concessions. Esrey Energy Ltd. 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

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consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Esrey Energy Ltd.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants
January 15, 2016
Calgary, Canada

Esrey Energy Ltd.

Consolidated statements of financial position
(Expressed in Canadian dollars)

	Note	**September 30, 2015**	**September 30, 2014**
ASSETS			
Current assets			
Cash and cash equivalents		**$ 6,782,208**	$ 8,099,814
Amounts receivable		**59,928**	50,279
Prepaid expenses and other deposits		**267,424**	407,934
		7,109,560	8,558,027
Non-current assets			
Exploration and evaluation assets	6	**3,212,596**	6,288,048
Property, plant and equipment	7	**42,092**	56,754
Investment in associate and joint ventures	8	**124,857**	127,347
		$ 10,489,105	$ 15,030,176
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**$ 185,315**	$ 307,337
Decommissioning obligations	9	**-**	55,876
Loans payable	10	**236,713**	3,853,830
		422,028	4,217,043
Equity			
Share capital	11	**110,392,414**	110,392,414
Contributed surplus	11	**13,047,616**	12,861,607
Accumulated other comprehensive income		**7,641,666**	7,451,804
Non-controlling interest	12	**(53,335)**	612,023
Deficit		**(120,961,284)**	(120,504,715)
		10,067,077	10,813,133
		$ 10,489,105	$ 15,030,176

Going Concern (Note 2(c))

Commitments (Note 6)

Approved and authorized for issue by the Board on January 15, 2016.

(Signed) "Paul Larkin"
Director

(Signed) "David Cohen"
Director

See the accompanying notes to these consolidated financial statements.

Esrey Energy Ltd.

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

	Note		Year ended September 30, 2015		Year ended September 30, 2014
Expenses:					
Depreciation	7	**$**	**14,777**	$	37,221
Settlement of drilling obligations	6(d)(i)		**-**		1,048,310
Loss on disposal of fixed assets			**-**		37,542
General and administrative expenses			**441,274**		631,984
Professional fees			**1,161,175**		1,207,493
Share based payments	11(d)		**186,009**		131,811
Travel and business development			**65,270**		149,406
Impairment of exploration and evaluation assets	6		**3,718,533**		176,533
			(5,587,038)		(3,420,300)
Other income (expenses):					
Accretion expense	9		**(581)**		(1,721)
Interest expense	10(a)		**(138,726)**		(345,984)
Interest income			**7,448**		12,463
Other income			**187,903**		3,606
Loss from investment in joint venture			**(2,491)**		-
Gain (loss) on settlement of debt	10(a)		**2,184,680**		(704,730)
Foreign exchange gain			**1,524,613**		434,392
			3,762,846		(601,974)
Loss for the year before income tax			**(1,824,192)**		(4,022,274)
Income tax recovery	13		**1,881,331**		398,617
Income (loss) from continuing operations			**57,139**		(3,623,657)
Loss from discontinued operations	14		**(722,398)**		(4,160,967)
Net loss for the year		**$**	**(665,259)**	$	(7,784,624)
Attributable to:					
Non-controlling interest	12		**(208,690)**		(30,736)
Equity shareholders of the Company			**(456,569)**		(7,753,888)
		$	**(665,259)**	$	(7,784,624)
Other comprehensive income					
Foreign currency translation gain attributed to non-controlling interest			**22,107**		70,229
Foreign currency translation gain for equity shareholders of the Company			**189,862**		891,499
		$	**(453,290)**	$	(6,822,896)
Income (loss) per share					
Basic and diluted from continuing operations	15	**$**	**0.01**	$	(0.11)
Basic and diluted from discontinued operations	15	**$**	**(0.02)**	$	(0.12)

See the accompanying notes to the consolidated financial statements.

Esrey 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, October 1, 2013	**28,867,670**	**$ 106,790,751**	**$ 12,729,232**	**$ 6,560,305**	**$ 572,530**	**$ (112,750,827)**	**$ 13,901,991**
Share based payments	-	-	132,375	-	-	-	132,375
Shares issued on the settlement of debt (Note 11c)	10,943,396	3,611,321	-	-	-	-	3,611,321
Share consolidation payments (Note 11b)	(48,295)	(9,658)	-	-	-	-	(9,658)
Net loss for the year	-	-	-	-	(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**
Share based payments (Note 11d)	-	-	186,009	-	-	-	186,009
Distribution (Note 12)	-	-	-	-	(478,775)	-	(478,775)
Net loss for the year	-	-	-	-	(208,690)	(456,569)	(665,259)
Foreign currency translation	-	-	-	189,862	22,107	-	211,969
Balance, September 30, 2015	**39,762,771**	**$ 110,392,414**	**$ 13,047,616**	**$ 7,641,666**	**$ (53,335)**	**$ (120,961,284)**	**$ 10,067,077**

See the accompanying notes to these consolidated financial statements.

Esrey Energy Ltd.

Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Note	Year ended September 30, 2015	Year ended September 30, 2014
Operating activities			
Loss before income taxes		**$ (2,546,590)**	$ (8,183,241)
Adjustments to net loss for non-cash items			
Depreciation	7	**14,777**	37,221
Loss on disposal of fixed assets	7	**-**	37,542
Share based payments	11(d)	**186,009**	131,811
Impairment of exploration and evaluation assets	6	**3,718,533**	176,533
Accretion expense	9	**581**	1,721
Interest expense	10(a)	**138,726**	345,984
Interest income		**(7,448)**	(12,463)
Loss from investment in joint venture		**2,491**	-
Loss (gain) on settlement of debt	10(a)	**(2,184,680)**	704,730
Foreign exchange gain		**(1,524,613)**	(434,392)
Net changes in non-cash working capital items	16	**843,496**	(416,721)
		(1,358,718)	(7,611,275)
Adjustments to net loss for cash items			
Interest income received		**9,891**	11,603
Interest expense paid		**(238)**	(561)
Realized foreign exchange gain		**21,647**	128,560
Taxes received		**1,881,988**	398,617
Cash from (used in) operating activities by continuing operations		**554,570**	(7,073,056)
Cash from operating activities by discontinued operations	14(a)	**722,398**	4,160,967
		1,276,968	(2,912,089)
Financing activities			
Share consolidation payments		**-**	(9,658)
Distribution		**(464,524)**	-
Repayment of loan	10(a)	**(1,966,213)**	**-**
		(2,430,737)	(9,658)
Investing activities:			
Proceeds from PNG farm-in	6 (a)(ii)	**-**	2,710,250
Advances to associate and joint ventures	8, 14	**(235,021)**	(899,261)
Exploration and evaluation expenditures	6	**(250,612)**	(398,363)
Property, plant and equipment additions	7	**-**	(14,038)
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	16	**(891,526)**	338,901
		(1,377,159)	3,448,644
Foreign exchange effect on cash and cash equivalents		**1,213,322**	533,542
Net (decrease) increase in cash and cash equivalents		**(1,317,606)**	1,060,439
Cash and cash equivalents, beginning of year		**8,099,814**	7,039,375
Cash and cash equivalents, end of year		**$ 6,782,208**	$ 8,099,814

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 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 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and were approved and authorized for issuance by the Board of Directors on January 15, 2016.

(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 incur significant amounts of 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-out 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.

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 6). If the Company does not meet the work commitments dictated by the terms of a concession and is not able to obtain an amendment or extension, the Company risks losing the concession. 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. Significant accounting policies

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

(a) Consolidation principles

Subsidiaries are entities controlled by the Company. Control exists when an entity is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Please refer to Note 5(a) for further details on the Company's subsidiaries.

(b) Business combinations

The acquisition method is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The Company elects on a transaction–by–transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in profit or loss.

Transaction costs that are incurred in connection with a business combination, other than those associated with the issue of debt or equity securities, are recognized in profit or loss.

(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 8.

(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.

(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, 2015, the Company has three investments in joint ventures. These investments are recorded on an equity 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, 2015, 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.

(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.

(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.

(j) 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.

(k) Income taxes

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

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

Deferred income taxes are provided 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.

(l) 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.

(m) 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).

(n) Share-based payments

The fair value, measured at the grant date, of equity-settled share-based payments is charged to profit 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

(o) Revenue recognition

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

(p) Application of new and revised IFRSs

Effective October 1, 2014, the Company adopted the following new and revised IFRS that were issued by the IASB.

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

(ii) IFRIC 21 Levies

IFRIC 21 “*Levies*”. IFRC 21 was issued by the International Accounting Standards Board in May 2013. IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.

(q) Future accounting pronouncements

Certain pronouncements have been issued by the IASB that are mandatory for accounting years beginning after October 1, 2015 or later years.

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

(i) IFRS 15 Revenue from Contracts with Customers

In May 2014 , the IASB issued IFRS 15 Revenue from Contracts with Customers. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The standard contains a single model that applies to contracts with customers and

two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The extent of the impact of adoption of the standard has not yet been determined.

(ii) IFRS 9 Financial Instruments

On July , 2014 the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight. IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The extent of the impact of the adoption of this standard has not yet been determined.

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:

(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 11(d)(ii).

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, 2015	September 30, 2014
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”)	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%
Telemu No. 18 Limited ("Telemu")	Operating Company	Papua New Guinea	**84.25%**	84.25%

(b) Associate

Name of associate	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			September 30, 2015	September 30, 2014
Saponis Investments Sp. z.o.o. ("Saponis")	Operating Company	Poland	**0.00% (ii)**	42.96% (i)

(i) On December 31, 2013, the Company and BNK Petroleum Inc. ("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%.
(ii) On March 31, 2015, the Company entered into a binding agreement to withdraw (the "Withdrawal Agreement") from the Company's investment in Saponis. In accordance with the Withdrawal Agreement, the Company transferred its 42.96% interest in Saponis to BNK. See Note 8(a).

(c) Joint ventures

Name of joint venture	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			September 30, 2015	September 30, 2014
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%

6. Exploration and evaluation assets

	Papua New Guinea	Poland	United States	Bulgaria	Total
Cost					
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**
Additions	217,110	-	33,502	-	250,612
Foreign exchange movement	2,037,918	-	291,983	-	2,329,901
Balance, September 30, 2015	**$ 49,910,304**	**$ 1,477,745**	**$ 2,975,182**	**$ 7,570,435**	**$ 61,933,666**
Accumulated depletion and impairment losses					
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**
Impairment	883,760	-	2,834,773	-	3,718,533
Foreign exchange movement	1,891,437	-	45,995	-	1,937,432
Balance, September 30, 2015	**$ 46,697,708**	**$ 1,477,745**	**$ 2,975,182**	**$ 7,570,435**	**$ 58,721,070**
Carrying amounts					
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
Carrying value at September 30, 2015	**$ 3,212,596**	**$ -**	**$ -**	**$ -**	**$ 3,212,596**

(a) Papua New Guinea

(i) Licenses

As at September 30, 2015, the Company holds a 50.55% working interest in Petroleum Prospecting License ("PPL") 486 (formerly PPL 319), an 84.25% working interest in PPL 321, and a 60% working interest in Petroleum Retention License ("PRL") 13 through permits received from the Minister of Petroleum and Energy for Papua New Guinea ("Minister"). In November 2014, PPLs 320 and 322 expired and were allowed to lapse.

PPL 486

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, to be no less than US$30 million during the initial two years. The entire work program includes:

- 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.

On September 11, 2015, the Company was informed that the Minister had approved a variance to move the requirement for 50km of seismic from Years 1 and 2 into Years 3 and 4, thereby bringing the total seismic requirement for Years 3 and 4 to 100km. As of January 15, 2016, the Company is in the process of requesting an additional variance to move the exploration well commitment to years 3 and 4.

Up until September 22, 2015, the Company had a 16.85% interest in PPL 486 under the assumption that Heritage Oil Ltd. ("Heritage") would fulfill its work commitments in the future and earn its full 80% farm-in (Note 6(a)(ii)). On September 22, 2015, the Company was notified by Heritage that it would not be funding the drilling of the first exploration well on PPL 486 and therefore would not fulfill its final commitment under the farm-in agreement. Heritage advised the Company that it would re-transfer the other 40% participating interest in the licenses back to the Company's subsidiary Telemu No. 18 Limited ("Telemu"). Therefore as at September 30, 2015, the Company has a 50.55% working interest in PPL 486.

PPL 321

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 January 15, 2016, the Company had not received a formal response from the Department of Petroleum and Energy ("DPE") with regards to the top-filing application for PPL 321. As at September 30, 2015, the Company had fully impaired the carrying amount of $883,760 (1.9 million kina) with respect to PPL 321, given that the granting of the license renewal remains outstanding.

PRL 13

The 20% interest in PRL 13 assumed that Heritage would fulfill its work commitments in the future and earn its full 80% farm-in (Note 6(a)(ii)). Effective June 2014, the Company was granted a three year extension for PRL 13. This extension carried with it a commitment to

acquire 10km of seismic in each of the first two years of the extension carrying a value of US$2.8 million. Prior to the granting of the extension, the Company had acquired approximately 20km of seismic on PRL 13. The seismic portion of this work commitment has been fulfilled.

On September 22, 2015, the Company was notified by Heritage that it would not be funding the drilling of the first exploration well on PPL 486 and therefore would not fulfill its final commitment under the farm-in agreement. Heritage advised the Company that it would re-transfer the other 40% participating interest in the licenses back to the Company's subsidiary, LNG Energy (PNG) Limited ("LNG PNG"). Therefore as at September 30, 2015, the Company has a 60% working interest in PRL 13.

These 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.

If the Company does not meet the expenditure or work program requirements outlined above, it may result in the loss of the licenses if variation applications are not approved by the DPE.

(ii) Business transactions

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 payment of $7,522,079. The work commitments consisted of the following:

- Acquisition of a minimum of 78km of seismic within the license areas; and,
- 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. This satisfied the requirements of the second tranche of the farm-in agreement and ensured Heritage retained a minimum 40% interest in PPL 486 and PRL 13. In order for Heritage to retain its additional 40% interest, Heritage was required to drill and complete one exploration well in PPL 486 to a depth sufficient to test identified exploration targets.

On May 30, 2014, the Company's subsidiaries, Telemu, LNG Energy 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 would 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 would 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.

On September 22, 2015, the Company was notified by Heritage that it would not be funding the drilling of the first exploration well on PPL 486 and therefore would not fulfill its final commitment under the farm-in agreement. Under the farm-in agreement, Heritage has the option to withdraw

from PPL486 and PRL 13 licenses (the "Licenses") or to retain a 40% participating interest in the Licenses. Heritage advised the Company that it wishes to retain a 40% participating interest and as a result will re-transfer the other 40% participating interest in the Licenses back to Telemu and LNG PNG respectively. In accordance with the farm-in agreement, Telemu and LNG PNG will assume operatorship of the Licenses.

On September 29, 2015, Telemu and LNG PNG filed the necessary documents with the DPE to assume operatorship of PPL 486 and PRL 13 with immediate effect. Subsequent to year-end on November 11, 2015, the necessary documents were filed with the DPE for the re-transfer of a 40% interest in PPL 486 and PRL 13 back to Telemu and LNG PNG, respectively. These re-transfers require Minister approval. As of the data of these financial statements, this approval has not been received.

(b) 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 enactment of legislation banning fracture stimulation 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. The appeal was heard by the relevant court on November 23, 2015. As of the date of these financial statements no ruling had been issued by the court.

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, of which US$7,492,122 (Cdn$7,570,122) has already been funded. These costs remain fully impaired as at September 30, 2015, as the ban on fracture stimulation created uncertainty with respect to the ultimate cost recovery of the Company's assets in Bulgaria.

(c) Poland

The Poland exploration and evaluation asset balance consisted 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 two joint ventures (Note 8). The Company's interest in these joint ventures are accounted for using the equity method.

On March 31, 2015, the Company entered into a binding agreement to withdraw from the Company's investment in Saponis Investments Sp z.o.o. (Note 8).

As at September 30, 2015, the Company was in the process of exiting from all investments in Poland, which resulted in the Poland exploration and evaluation assets remaining impaired in full.

(d) United States

(i) Sheridan County

During the year ended September 30, 2015, the Company relinquished all of its oil and gas leases in Sheridan County and plugged and abandoned the Archer well (see Note 9). The costs associated with the oil and gas leases were impaired in full during the three months ended December 31, 2014, and the net book value of both the oil and gas leases and the Archer well remained at $Nil as at September 30, 2015.

(ii) Cascade County

During the year ended September 30, 2015, the Company relinquished all of its oil and gas leases in Cascade County recognizing a full impairment of the costs associated with them.

7. Property, plant and equipment

Cost		
Balance, September 30, 2013	$	329,384
Additions		14,038
Disposals		(226,862)
Foreign exchange movement		14,421
Balance, September 30, 2014	**$**	**130,981**
Foreign exchange movement		302
Balance, September 30, 2015	**$**	**131,283**
Accumulated depreciation and impairment losses		
Balance, September 30, 2013	$	184,599
Depreciation		37,221
Disposals		(158,230)
Foreign exchange movement		10,637
Balance, September 30, 2014	**$**	**74,227**
Depreciation		14,777
Foreign exchange movement		187
Balance, September 30, 2015	**$**	**89,191**
Carrying amount		
Carrying value at September 30, 2013	$	144,785
Carrying value at September 30, 2014	$	56,754
Carrying value at September 30, 2015	**$**	**42,092**

8. Associate and joint ventures

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

On March 31, 2015, the Company entered into a binding agreement to withdraw (the “Withdrawal Agreement”) from the Company’s investment in Saponis. In accordance with the Withdrawal Agreement, the Company transferred its 42.96% interest in Saponis to BNK, paid the final cash call of US$100,000, and assigned and forgave its loans receivable from Saponis in exchange for BNK assuming the future obligations of Saponis. As at September 30, 2015, the Company’s investment in Saponis was $Nil.

(b) Joyce Podlasie LLC (“Joyce”)

As at September 30, 2015, the Company, through its subsidiary, Kaynes, holds a 50% interest in Joyce. The remaining 50% interest in Joyce is owned by San Leon Energy Plc ("San Leon"). As of February 28, 2015, the Company along with its joint venture partner San Leon informed the Ministry of Geology that the Ilawa concession was being relinquished. As at September 30, 2015, the

Company was in the process of exiting from all investments in Poland, including Joyce, which resulted in the Company's investment in Joyce remaining impaired in full.

(c) Maryani Podlasie, LLC ("Maryani")

As at September 30, 2015, the Company, through its subsidiary, Kaynes, holds a 50% interest in Maryani. The remaining 50% interest in Maryani is owned by San Leon. The Wegrow concession that was previously held by Maryani expired in June 2014, which resulted in a full impairment of the Company's investment in Maryani during the year ended September 30, 2014. As at September 30, 2015, the Company was in the process of exiting from all investments in Poland, including Maryani, which resulted in the investment in Maryani remaining impaired in full.

(d) EERL Holdings (BVI) Ltd

As at September 30, 2015, the Company holds a 50% interest in EERL Holdings (BVI) Ltd ("EERL Holdings"). The remaining 50% ownership in EERL Holdings is owned by a third party. EERL Holdings owns 31.5% of Telemu. As at September 30, 2015, the investment in EERL Holdings is $124,857 (September 30, 2014 – $127,347).

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, 2015	September 30, 2014
Cash and cash equivalents	**$ 62,585**	$ 57,052
Amounts receivable	**239,816**	201,283
Investment in Telemu	**175,509**	1,120,710
Net assets	**$ 477,910**	$ 1,379,045

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

	Year ended September 30, 2015	Year ended September 30, 2014
Expenses	**$ (906)**	$ (1,842)
EERL Holdings' share of Telemu's loss	**(139,010)**	(61,466)
Foreign exchange gain	**(4,075)**	5,483
Net loss	**(143,991)**	(57,825)
Other comprehensive income	**200,406**	113,276
Total comprehensive income	**$ 56,415**	$ 55,451

(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, 2015		September 30, 2014
Opening net assets	$	1,379,045	$	1,323,594
Distribution		(957,550)		-
Net loss		(143,991)		(57,825)
Other comprehensive income		200,406		113,276
	$	477,910	$	1,379,045
Percentage interest in joint venture		50.00%		50.00%
Interest in joint venture		238,955		689,523
Less: investment in Telemu		(87,755)		(562,176)
Exchange gains on joint venure assets		(26,343)		-
Investment in joint venture	$	124,857	$	127,347

9. Decommissioning obligations

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

		September 30, 2015		September 30, 2014
Balance, beginning of the year	$	55,876	$	52,965
Accretion expense		581		1,721
Settlement of decommissioning obligations		(50,362)		-
Foreign exchange		(6,095)		1,190
Total current decomissioning obligations	$	-	$	55,876

The undiscounted cash flow required to settle the obligation for the Archer Well in Montana, USA was approximately US$50,000. The calculation was assessed using a risk-free interest rate of 2.55% and an assumed inflation rate of 2.0% per annum. During June 2015, the Archer Well was plugged and abandoned, which resulted in a decommissioning obligation of $Nil as at September 30, 2015.

10. Loans payable

		September 30, 2015		September 30, 2014
Credit facilities	$	-	$	3,656,852
Loan payable		236,713		196,978
Loans payable	$	236,713	$	3,853,830

(a) Credit facilities

In February 2012, the Company's wholly owned subsidiary, Kaynes, entered into two non-revolving credit facilities totaling US$5,000,000 ("the Credit Facilities"). On April 28, 2014, the Company settled US$2,636,363 of the Credit Facilities through the issuance of an aggregate of 10,943,396 common shares of Esrey at a deemed price of Cdn $0.265 per common share.

The Credit Facilities matured in February 2015. On March 31, 2015, the Company entered into a Debt Settlement Agreement to settle in full the matured non-revolving credit facilities owed by

Kaynes. At maturity, Kaynes owed US$3,377,776 under the Credit Facilities. In exchange for the settlement of the amount due, the Company, through its wholly owned subsidiaries:

- Repaid US$1,600,000;
- Agreed to fund the lender's share of certain work programs in Papua New Guinea that the parties are involved in; and
- Agreed that for a period of 72 months after the date of closing to acquire any new oil and gas licenses in Papua New Guinea through the Company's subsidiary, Telemu No. 18 Limited, in which the lender has a 15.75% indirect interest.

For the year ended September 30, 2015, the interest expense related to the Credit Facilities was $138,726 (September 30, 2014 - $345,984) and was payable upon maturity. Interest was accrued at a fixed rate of 7% per annum, compounded semi-annually.

(b) Loan

As at September 30, 2015, the Company has a loan payable due to EERL Holdings of $236,713 (September 30, 2014 - $196,978). The loan is non-interest bearing and has no fixed date of repayment.

11. Share capital

(a) Authorized

- Unlimited number of common shares with no par value.

(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, 2015 and 2014 were as follows:

	Number of Options	**Average Exercise Price**	Number of Options	Average Exercise Price
Balance, beginning of the year	1,256,500	$0.63	1,457,000	$4.70
Granted	2,376,000	$0.095	994,000	$0.12
Expired	-	-	(129,250)	$1.76
Forfeited	(320,000)	$0.10	(185,000)	$8.31
Cancelled	-	-	(880,250)	$5.01
Balance, end of the year	**3,312,500**	**$0.30**	**1,256,500**	**$0.63**

Options granted and vested during the year ended September 30, 2015, resulted in share-based payment expense of $186,009 (September 30, 2014 - $132,375) of which $Nil was capitalized (September 30, 2014 - $564).

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

On August 24, 2015, 320,000 stock options that were granted on January 8, 2014 and April 2, 2015 to a former officer of the Company were forfeited following her resignation.

On April 2, 2015, the Company granted 2,376,000 stock options pursuant to its previously approved stock option plan to directors, officers, employees and consultants of the Company at an exercise price of $0.095. One third of these options vested immediately, one third on October 2, 2015, and one third will vest on April 2, 2016. The options expire on April 2, 2020.

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 $0.12 per share. One third of these options vested immediately, one third vested on July 8, 2014 and one third vested 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:

	April 2, 2015	**January 8, 2014**
Exercise price per option	$0.095	$0.12
Share price at date of grant	$0.095	$0.15
Expected life	5 years	5 years
Risk-free interest rate	0.73%	1.45%
Dividend yield	Nil	Nil
Expected volatility	209.72%	196.38%
Estimated fair value per option	$0.09	$0.15

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

The following table summarizes information about outstanding and exercisable options at September 30, 2015.

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
877,750	877,750	$0.12	January 8, 2019
2,156,000	718,667	$0.095	April 2, 2020
3,312,500	**1,875,167**		

The weighted average remaining life of options is 3.35 years (September 30, 2014 – 3.47 years) and the weighted average exercise price of options exercisable at September 30, 2015 is $0.30 (September 30, 2014 - $0.66).

12. 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, 2013	**$**	**572,530**
Non-controlling interests' share of Telemu's loss		(30,736)
Foreign exchange translation		70,229
Balance, September 30, 2014	**$**	**612,023**
Distribution		(478,775)
Non-controlling interests' share of Telemu's income		(208,690)
Foreign exchange translation		22,107
Balance, September 30, 2015	**$**	**(53,335)**

The following is summarized financial information for Telemu before any intercompany eliminations:

	Year ended September 30,			
		2015		2014
Expenses		**(1,325,013)**		**(195,151)**
Total comprehensive loss	**$**	**(1,325,013)**	**$**	**(195,151)**
Comprehensive loss atributable to non-controlling interests	**$**	**(208,690)**	$	(30,736)
Current assets		**209,418**		3,093,576
Non-current assets		**751,685**		1,541,176
Current liabilities		**(1,253,489)**		(672,573)
Net assets	**$**	**(292,386)**	$	3,962,179
Net assets attributable to non-controlling interests	**$**	**(46,051)**	$	624,043
Consolidation adjustments		**(7,284)**		(12,000)
Net assets attributable to non-controlling interests, after consolidation	**$**	**(53,335)**	$	612,043

13. Income taxes

The income tax recognized in profit or loss during the years ended September 30, 2015 and September 30, 2014, consists of a current tax recovery. The provision for income taxes reported differs from the amount computed by applying the Canadian federal and provincial income tax rates to the loss for the year before tax due to the following:

	September 30, 2015	September 30, 2014
Loss income for the year before tax	**$ (1,824,192)**	$ (4,022,274)
Statutory rates	**26.0%**	26.0%
Expected tax recovery	**(474,290)**	(1,045,791)
Difference in tax rates between foreign jurisdictions and Canada	**(126,946)**	(156,823)
Items not deductible for income tax purposes	**57,153**	79,102
Adjustment to tax filings	**(1,881,331)**	(8,120,371)
Change in unrecognized tax benefit	**312,694**	9,364,608
Other	**231,389**	(519,342)
Income tax recovery	**$ (1,881,331)**	$ (398,617)

The statutory rate was 26% in 2015 (26% in 2014).

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

	September 30, 2015	September 30, 2014
Non-capital loss carry forwards	**$ 127,128,436**	$ 127,436,706
Capital loss carry forwards	**1,532,409**	1,532,409
Property, plant and equipment	**103,500**	89,948
Exploration and evaluation assets	**8,599,389**	5,226,680
Decommissioning obligation	**-**	55,876
Unrealized foreign exchange	**2,358,939**	3,883,549
Share issue costs	**-**	294,832
	$ 139,722,673	$ 138,520,000

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 $127.1 million available to apply against future income for tax purposes. These losses expire between 2016 and 2035.

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.

14. Discontinued operations

During the year ended September 30, 2014, the Company 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, 2015	2014
Share of associate and joint ventures' income (loss)	8	**$ -**	$ 6,088,776
Impairment of investment in associate and joint ventures	8	**-**	(7,983,053)
Write-down of loan receivable		**(235,021)**	(846,997)
Foreign currency loss - Saponis		**(487,377)**	-
Impairment of exploration and evaluation assets	6	**-**	(1,419,693)
Loss from discontinued operations		**$ (722,398)**	$ (4,160,967)

(b) Statement of cash flows

	Year ended September 30, 2015	2014
Advances to associate and joint ventures	**$ (235,021)**	$ (899,261)
Cash flows from discontinued operations	**$ (235,021)**	$ (899,261)

15. 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, 2015	Year ended September 30, 2014
Net loss attributable to equity shareholders		
From continuing operations	**$ 265,829**	$ (3,592,921)
From discontinued operations	**(722,398)**	(4,160,967)
	$ (456,569)	$ (7,753,888)
Weighted average number of ordinary shares	**39,762,771**	33,502,904
Effect of dilutive securities		
Stock options	**-**	-
Diluted weighted average number of ordinary shares	**39,762,771**	33,502,904
Income (loss) per share		
Basic and diluted from continuing operations	**$ 0.01**	$ (0.11)
Basic and diluted from discontinued operations	**$ (0.02)**	$ (0.12)

As at September 30, 2015, the Company has 1,875,167 (September 30, 2014 – 1,256,500) potential ordinary shares that are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted loss per share.

16. 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, 2015	Year ended September 30, 2014
Amounts receivable	**$ (507,148)**	$ 322,975
Prepaid expenses and other deposits	**166,928**	51,600
Accounts payable and accrued liabilities	**292,190**	(452,395)
Net changes in non-cash working capital items	**$ (48,030)**	$ (77,820)
Relating to:		
Operating activities	**$ 843,496**	$ (416,721)
Investing activities	**(891,526)**	338,901
Net changes in non-cash working capital items	**$ (48,030)**	$ (77,820)

17. 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, 2015	Year ended September 30, 2014
Consulting fees	**$ 48,000**	$ 48,000
	$ 48,000	$ 48,000

Amounts due to the related party are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at September 30, 2015, included $Nil (September 30, 2014 – $Nil) which was due to the related party.

18. Compensation of key management personnel

The remuneration of members of key management personnel during the years ended September 30, 2015 and 2014 was as follows:

			Year ended September 30, 2015		Year ended September 30, 2014
Management fees					
Officers		**$**	**512,088**	$	452,964
Director fees					
Directors			**24,000**		24,000
Share-based payments	(i)				
Directors and officers			**132,135**		107,043
		$	**668,223**	$	584,007

(i) Share-based payments are the fair value of options granted to key management personnel including the officers 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, 2015 and 2014. Accounts payable and accrued liabilities at September 30, 2015, include $Nil of directors fees payable (September 30, 2014 - $Nil). Accounts payable and accrued liabilities at September 30, 2015, included $Nil due to private companies controlled by an officer and director of the Company (September 30, 2014 - $Nil). Amounts due to or from related parties are unsecured, non-interest bearing and due on demand.

19. Segmented information

(a) Geographic Information

The Company's assets by geographic areas as at September 30, 2015 and 2014 are as follows:

	September 30, 2015				
	Papua New Guinea	**Poland**	**United States**	**Canada**	**Total**
Current assets	$ 244,948	$ 25,697	$ 4,737,632	$ 2,101,283	**$ 7,109,560**
Exploration and evaluation assets	3,212,596	-	-	-	**3,212,596**
Property, plant and equipment	2,428	280	-	39,384	**42,092**
Investment in associate and joint ventures	-	-	-	124,857	**124,857**
	$ 3,459,972	**$ 25,977**	**$ 4,737,632**	**$ 2,265,524**	**$ 10,489,105**

	September 30, 2014				
	Papua New Guinea	Poland	United States	Canada	Total
Current assets	$ 3,159,523	$ 112,852	$ 4,800,564	$ 485,088	$ 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
	$ 6,895,027	$ 113,930	$ 7,355,847	$ 665,372	$ 15,030,176

The Company's expenses and income by geographic area for the years ended September 30, 2015 and 2014, are as follows:

	Year ended September 30, 2015				
	Papua New Guinea	**Poland**	**United States**	**Canada**	**Total**
Net income (loss) from					
Continuing operations	$ (794,543)	$ 2,181,086	$ (2,059,025)	$ 729,621	**$ 57,139**
Discontinued operations	-	(722,398)	-	-	**(722,398)**
Net income (loss)	**$ (794,543)**	**$ 1,458,688**	**$ (2,059,025)**	**$ 729,621**	**$ (665,259)**
Attributable to					
Non-controlling interest	$ (208,690)	$ -	$ -	$ -	**$ (208,690)**
Equity shareholders of the Company	(585,853)	1,458,688	(2,059,025)	729,621	**(456,569)**
	$ (794,543)	**$ 1,458,688**	**$ (2,059,025)**	**$ 729,621**	**$ (665,259)**

	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)

20. 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.

21. Financial instruments

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

(a) Fair value of financial instruments

(i) Fair value estimation of financial instruments

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

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

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

(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, 2015 and 2014.

	September 30, 2015			
	Less than 3 months	**3 - 12 months**	**1 - 5 years**	**Total**
Accounts payable and accrued liabilities	**$ 25,708**	**$ 159,607**	**$ -**	**$ 185,315**
Loans payable	**236,713**	**-**	**-**	**236,713**
Total	**$ 262,421**	**$ 159,607**	**$ -**	**$ 422,028**

	September 30, 2014			
	Less than 3 months	3 - 12 months	1 - 5 years	Total
Accounts payable and accrued liabilities	$ 307,337	$ -	$ -	$ 307,337
Decommissioning obligation	-	55,876	-	55,876
Loans payable	196,978	3,656,852	-	3,853,830
Total	$ 504,315	$ 3,712,728	$ -	$ 4,217,043

(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.

(i) 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.

(ii) 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 through the following financial assets and liabilities denominated in currencies other than the Canadian dollar at September 30, 2015 and 2014:

	September 30, 2015	September 30, 2014
Cash	**$ 6,623,447**	$ 6,994,284
Amounts receivable	**30,577**	27,778
Prepaid expenses and other deposits	**157,391**	297,847
Accounts payable and accrued liabilities	**(65,471)**	(121,801)
	$ 6,745,944	$ 7,198,108