esrey
ENERGY LTD

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016 and 2015

(in Canadian dollars, except where expressed otherwise)

Esrey Energy Ltd.
September 30, 2016

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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, 2016 and September 30, 2015, 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 Esrey Energy Ltd. as at September 30, 2016 and September 30, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Comparative Information

Without modifying our opinion, we draw attention to Note 22 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended September 30, 2015, has been restated and that the comparative information presented as at October 1, 2014 has been derived from the consolidated financial statements as at and for the year ended September 30, 2014.

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 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 26, 2017
Calgary, Canada

Esrey Energy Ltd.

Consolidated statements of financial position
(Expressed in Canadian dollars)

	Note	September 30, 2016	September 30, 2015 (Restated Note 22)	October 1, 2014 (Restated Note 22)
ASSETS				
Current assets				
Cash and cash equivalents		**$ 6,928,818**	$ 6,782,208	$ 8,099,814
Accounts receivable		**166,321**	59,928	50,279
Income tax receivable		**-**	1,201,620	1,720,520
Prepaid expenses and other deposits		**90,485**	267,424	407,934
		7,185,624	8,311,180	10,278,547
Non-current assets				
Exploration and evaluation assets	6	**2,915,406**	3,212,596	6,288,048
Property, plant and equipment	7	**28,302**	42,092	56,754
Investment in associate and joint ventures	8	**119,880**	124,857	127,347
		$ 10,249,212	$ 11,690,725	$ 16,750,696
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		**$ 390,211**	$ 185,315	$ 307,337
Decommissioning obligations	9	**-**	-	55,876
Loans payable	10	**231,893**	236,713	3,853,830
		622,104	422,028	4,217,043
Equity				
Share capital	11	**110,392,414**	110,392,414	110,392,414
Contributed surplus	11	**13,082,340**	13,047,616	12,861,607
Accumulated other comprehensive income		**7,757,337**	7,959,259	7,509,689
Non-controlling interest	12	**(161,575)**	(53,335)	612,023
Deficit		**(121,443,408)**	(120,077,257)	(118,842,080)
		9,627,108	11,268,697	12,533,653
		$ 10,249,212	$ 11,690,725	$ 16,750,696

Going Concern (Note 2(c))
Commitments (Note 6)
Subsequent Event (Note 23)

Approved and authorized for issue by the Board on January 26, 2017

(Signed) "Paul Larkin" — Director

(Signed) "David Cohen" — Director

See the accompanying notes to the consolidated financial statements.

Esrey Energy Ltd.

Consolidated statements of comprehensive loss
(Expressed in Canadian dollars)

	Note		Year ended September 30, 2016		Year ended September 30, 2015 (Restated Note 22)
Expenses:					
Depreciation	7	**$**	**11,704**	$	14,777
General and administrative expenses			**367,751**		441,274
Professional fees			**804,612**		1,161,175
Share based payments	11(c)		**34,724**		186,009
Travel and business development			**6,467**		65,270
Impairment of exploration and evaluation assets	6		**-**		3,718,533
			(1,225,258)		(5,587,038)
Other income (expenses):					
Accretion expense	9		**-**		(581)
Interest expense	10(a)		**-**		(138,726)
Interest income			**3,585**		7,448
Other income			**12,860**		187,903
Loss from disposal of equipment	7		**(1,883)**		-
Loss from investment in joint venture	8(d)		**(4,980)**		(2,491)
Gain on settlement of debt	10(a)		**-**		2,184,680
Foreign exchange gain (loss)			**(208,191)**		1,524,613
			(198,609)		3,762,846
Loss before income taxes			**(1,423,867)**		(1,824,192)
Income tax recovery (expense)	13		**(3,201)**		1,102,723
Loss from continuing operations			**(1,427,068)**		(721,469)
Loss from discontinued operations	14		**-**		(722,398)
Net loss for the year		**$**	**(1,427,068)**	$	(1,443,867)
Attributable to:					
Non-controlling interest	12		**(60,917)**		(208,690)
Equity shareholders of the Company			**(1,366,151)**		(1,235,177)
		$	**(1,427,068)**	$	(1,443,867)
Other comprehensive income (loss)					
Foreign currency translation gain (loss) attributed to non-controlling interest			**(47,323)**		22,107
Foreign currency translation gain (loss) for equity shareholders of the Company			**(201,922)**		449,570
Comprehensive loss for the year		**$**	**(1,676,313)**	$	(972,190)
Basic and diluted loss per share from:					
Continuing operations	15	**$**	**(0.03)**	$	(0.01)
Discontinued operations	15	$	-	$	(0.02)

See the accompanying notes to the consolidated financial statements.

Esrey Energy Ltd.

Consolidated statements of changes in equity
(Expressed in Canadian dollars)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Non-controlling interest	Deficit	Total equity
Balance, October 1, 2014 (Restated Note 22)	**39,762,771**	**$ 110,392,414**	**$ 12,861,607**	**$ 7,509,689**	**$ 612,023**	**$ (118,842,080)**	**$ 12,533,653**
Share based payments (Note 11c)	-	-	186,009	-	-	-	186,009
Distribution (Note 12)	-	-	-	-	(478,775)	-	(478,775)
Net loss for the year	-	-	-	-	(208,690)	(1,235,177)	(1,443,867)
Foreign currency translation	-	-	-	449,570	22,107	-	471,677
Balance, September 30, 2015 (Restated Note 22)	**39,762,771**	**$ 110,392,414**	**$ 13,047,616**	**$ 7,959,259**	**$ (53,335)**	**$ (120,077,257)**	**$ 11,268,697**
Share based payments (Note 11c)	-	-	34,724	-	-	-	34,724
Net loss for the year	-	-	-	-	(60,917)	(1,366,151)	(1,427,068)
Foreign currency translation	-	-	-	(201,922)	(47,323)	-	(249,245)
Balance, September 30, 2016	**39,762,771**	**$ 110,392,414**	**$ 13,082,340**	**$ 7,757,337**	**$ (161,575)**	**$ (121,443,408)**	**$ 9,627,108**

See the accompanying notes to the consolidated financial statements.

Esrey Energy Ltd.

Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Note	Year ended September 30, 2016	Year ended September 30, 2015
Operating activities			
Loss before income taxes		**$ (1,423,867)**	$ (2,546,590)
Adjustments to net loss for non-cash items			
Depreciation	7	**11,704**	14,777
Share based payments	11(c)	**34,724**	186,009
Impairment of exploration and evaluation assets	6	**-**	3,718,533
Accretion expense	9	**-**	581
Interest expense	10(a)	**-**	138,726
Interest income		**(3,585)**	(7,448)
(Gain) loss on debt settlement	10(a)	**-**	(2,184,680)
Loss from disposal of equipment	7	**1,883**	-
Loss from investment in joint venture		**4,980**	2,491
Foreign exchange loss (gain)		**214,432**	(1,524,613)
Net changes in non-cash working capital items	16	**284,738**	843,496
		(874,991)	(1,358,718)
Adjustments to net loss for cash items			
Interest income received		**3,585**	9,891
Interest expense paid		**-**	(238)
Realized foreign exchange gain		**6,241**	21,647
Taxes received		**1,251,887**	1,881,988
Cash from operating activities by continuing operations		**386,722**	554,570
Cash from operating activities by discontinued operations	14(b)	**-**	722,398
		386,722	1,276,968
Financing activities:			
Distribution		**-**	(464,524)
Repayment of loan	10(a)	**-**	(1,966,213)
		-	**(2,430,737)**
Investing activities:			
Advances to associate and joint ventures	8, 14	**-**	(235,021)
Exploration and evaluation expenditures	6	**(82,982)**	(250,612)
Net changes in non-cash working capital items	16	**-**	(891,526)
		(82,982)	(1,377,159)
Foreign exchange effect on cash and cash equivalents		**(157,130)**	1,213,322
Net increase in cash and cash equivalents		**146,610**	(1,317,606)
Cash and cash equivalents, beginning of year		**6,782,208**	8,099,814
Cash and cash equivalents, end of year		**$ 6,928,818**	$ 6,782,208

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. 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

The 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 as of January 26, 2017.

(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.

2. Basis of presentation and going concern (continued)

(c) Going concern (continued)

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. See also Note 23.

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 audited consolidated financial statements.

3. Summary of 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.

3. Summary of significant accounting policies (continued)

(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 as 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 and loss.

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

Investments in which the Company does have significant influence but not control are classified as equity investments and are accounted for using the equity method, where the Company's share of earnings or losses are recognized in earnings or loss and its share of other comprehensive income or loss is recognized in other comprehensive income. When the Company's cumulative share of losses equals or exceeds the Company's carrying amount of the investment, the Company does not recognize further losses unless the Company has incurred obligations or made payments on behalf of the investment. After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss. Any loss is recognized in earnings 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, European Euros, Papua New Guinea Kina and Polish Zloty.

3. Summary of significant accounting policies (continued)

(d) Foreign currency translation *(continued)*

(i) Functional and presentation currency (continued)

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 in net income.

(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 accounts 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. The Company does not have any financial assets classified as available for sale.

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, 2016, and 2015, the Company does not have any financial assets classified as fair value through profit or loss.

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

3. Summary of significant accounting policies (continued)

(e) Financial instruments *(continued)*

(i) Financial Assets (continued)

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in 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 consist of cash bank deposits and interest bearing savings accounts.

(g) Property, plant and equipment, and exploration and evaluation 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 license.

(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 and at the time of transfer to property, plant and equipment, the asset's recoverable amount is estimated. If the asset's carrying value exceeds its recoverable amount, an impairment loss is recorded.

3. Summary of significant accounting policies (continued)

(g) Property, plant and equipment, and exploration and evaluation assets *(continued)*

(iii) 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 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.

Property, plant and equipment 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

(iv) Impairment

At each reporting date, the Company assesses whether there is an indication that exploration and evaluation assets and property, plant and equipment 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 exploration and evaluation assets and plant, property and equipment, an assessment is made at 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 assets or CGU's recoverable amount is completed. 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.

3. Summary of significant accounting policies (continued)

(h) 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 reporting 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 increase or decrease 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.

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 or not recognized.

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

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

3. Summary of significant accounting policies (continued)

(j) Income taxes *(continued)*

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

(k) Basic and diluted income (loss) per share

Basic income (loss) per share is computed by dividing the income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted income (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 income (loss) per share.

(l) Comprehensive income and non-controlling interest

Non-controlling interest 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 income (loss).

(m) Share capital

i) Share-based payments

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

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 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

3. Significant Accounting Policies (Continued)

(m) Share Capital *(continued)*

i) Share-based payments (continued)

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

If and when the stock options or warrants are ultimately exercised, the applicable amounts of their fair values in the reserves account are transferred to share capital.

ii) Share issuance costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

(n) Revenue recognition

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

(o) Application of new and revised IFRS

Effective October 1, 2015, there were no new or revised IFRS that were issued by the IASB that were adopted by the Company.

(p) Future accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are not mandatory for accounting periods beginning before October 1, 2016. They have not been early adopted in these consolidated financial statements, and are expected to affect the Company in the period of initial application. In all cases the Company intends to apply these standards from application date as indicated below:

Effective for annual periods beginning on or after October 1, 2016:

Amended standard IFRS 11, Accounting for Acquisitions of Interests in Joint Operations
The amendments provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business.

3. Summary of significant accounting policies (continued)

(p) Future accounting pronouncements *(continued)*

Effective for annual periods beginning on or after October 1, 2017:

Amended standard IAS 7, Statement of Cash Flows
The amendments to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities.

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

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

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

Amended standard IFRS 9, Financial Instruments – Classification and Measurement
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.

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

Effective for annual periods beginning on or after October 1, 2019:

New standard IFRS 16, Leases
IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties of a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

The Company 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.

4. Critical accounting estimates and judgments (continued)

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

Critical Accounting Estimates

(a) 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(c)(ii).

Critical Accounting Judgments

(b) 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.

(c) 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.

(d) Income taxes

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

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

4. Critical accounting estimates and judgments (continued)

(e) Determination of CGUs

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

(f) Functional currency

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

(Expressed in Canadian dollars, except where expressed otherwise)

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, 2016	September 30, 2015
LNG Energy US Inc. ("LNG US")	Holding Company	Delaware	**0%**	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	**0%**	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	**0%**	100%
Telemu No. 18 Limited ("Telemu")	Operating Company	Papua New Guinea	**84.25%**	84.25%

(Expressed in Canadian dollars, except where expressed otherwise)

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, 2016	September 30, 2015
Saponis Investments Sp. z.o.o. ("Saponis")	Operating Company	Poland	**0.00%**	0.00% *(i)*

(i) 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, 2016	September 30, 2015
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)

6. Exploration and evaluation assets

	Papua New Guinea	Poland	United States	Bulgaria	Total
Cost					
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	-	505,557	-	2,543,475
Balance, September 30, 2015	**$ 49,910,304**	**$ 1,477,745**	**$ 3,188,756**	**$ 7,570,435**	**$ 62,147,240**
Additions	82,982	-	-	-	82,982
Foreign exchange movement	(5,855,580)	-	-	-	(5,855,580)
Balance, September 30, 2016	**$ 44,137,706**	**$ 1,477,745**	**$ 3,188,756**	**$ 7,570,435**	**$ 56,374,642**
Impairment losses					
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	-	259,569	-	2,151,006
Balance, September 30, 2015	**$ 46,697,708**	**$ 1,477,745**	**$ 3,188,756**	**$ 7,570,435**	**$ 58,934,644**
Impairment	-	-	-	-	-
Foreign exchange movement	(5,475,408)	-	-	-	(5,475,408)
Balance, September 30, 2016	**$ 41,222,300**	**$ 1,477,745**	**$ 3,188,756**	**$ 7,570,435**	**$ 53,459,236**
Carrying amounts					
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
Carrying value at September 30, 2016	**$ 2,915,406**	**$ -**	**$ -**	**$ -**	**$ 2,915,406**

6. Exploration and evaluation assets (continued)

(a) Papua New Guinea

(i) 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 Petroleum Prospecting License ("PPL") 486 and Petroleum Retention License ("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 BC, LNG PNG and LNG Energy No. 2 Limited, 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 had the option to withdraw from PPL 486 and PRL 13 licenses (the "Licenses") or to retain a 40% participating interest in the Licenses. Heritage advised the Company that it wished to retain a 40% participating interest and as a result re-transferred the other 40% participating interest in the Licenses back to Telemu and LNG PNG. In accordance with the farm-in agreement, Telemu and LNG PNG assumed operatorship of the Licenses.

On September 29, 2015, Telemu and LNG PNG filed the necessary documents with the Department of Petroleum and Energy ("DPE") to assume operatorship of PPL 486 and PRL 13 with immediate effect. 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 acknowledgement. As of the date of these financial statements, this acknowledgement has not been received.

6. Exploration and evaluation assets (continued)

(a) Papua New Guinea (continued)

(ii) Licenses

As at September 30, 2016, the Company holds a 50.55% working interest in PPL 486 (formerly PPL 319), an 84.25% working interest in PPL 321, and a 60% working interest in 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. 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 at a cost of no less than US$30 million (including cost to all parties – "gross");
- 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 at a gross cost of no less than US$30 million; and
- Years 5 and 6: analysis of data from the previous four years and the drilling of a third exploration well at a gross cost of no less than US$25 million.

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. On June 10, 2016 a variance was filed with the DPE requesting a change in the work program for PPL 486. This variance would move the well requirement for Years 1 and 2 into Years 3 and 4 with an option for additional seismic in place of the well and would reduce the overall minimum required expenditure under the work program. As of January 26, 2017, approval for the variance has not been received. Management believes that the variance will be approved by the Minister. If the variance application was unsuccessful, the DPE may cancel the license which potentially may result in the carrying amount of $1,055,584 related to PPL 486 being written off.

Up until September 22, 2015, the Company had a 16.85% interest in PPL 486. Due to Heritage not fulfilling its final commitment under the farm-in agreement, Heritage re-transferred the other 40% participating interest in the licenses back to the Company's subsidiary Telemu. Therefore as at September 30, 2016, 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 at January 26, 2017, the Company had not received a formal response from the DPE with regards to the top-filing application for PPL 321. On September 30, 2015, the Company 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.

6. Exploration and evaluation assets (continued)

(a) Papua New Guinea (continued)

(ii) Licenses (continued)

PRL 13

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 acquired approximately 20km of seismic on PRL 13. All work commitments have been fulfilled. The extension also carried with it a commitment to acquire further seismic or drill a well by the end of the third year with a minimum gross expenditure of US$31 million that has not been met and must be completed by June 2017.

Due to Heritage not fulfilling its final commitment under the farm-in agreement, on September 22, 2015, Heritage re-transferred the other 40% participating interest in the licenses back to the Company's subsidiary, LNG PNG. Therefore as at September 30, 2016, the Company has a 60% working interest in PRL 13.

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, which potentially may result in the carrying amount of $1,859,822 related to PRL 13 being written off.

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.

(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. On February 23, 2016, the court issued a ruling supporting the Company's position and remanded the case back to the Ministry of Energy for reconsideration using specific guidelines. The Ministry filed an appeal and on June 15 2016, the lower court ruling was overturned thereby reinstating the original decision of the Ministry to deny the concession and the matter stands closed. It is the Company's position that no further action is possible and that the Etropole Concession will not be granted.

(Expressed in Canadian dollars, except where expressed otherwise)

6. Exploration and evaluation assets (continued)

(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 were held through its interest in an associate and two joint ventures (Note 8). The Company withdrew from its interest in its associate (Saponis) on March 31, 2015 and was in the process of withdrawing from its two joint ventures (Joyce and Maryani) on September 30, 2016, which resulted in the Poland exploration and evaluation assets remaining impaired in full.

(d) United States

(i) Sheridan County

In March 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 on 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, 2016.

(ii) Cascade County

On December 2014, 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, 2014	$	130,981
Foreign exchange movement		302
Balance, September 30, 2015	$	131,283
Disposals		(2,760)
Foreign exchange movement		(416)
Balance, September 30, 2016	**$**	**128,107**
Accumulated depreciation		
Balance, September 30, 2014	$	74,227
Depreciation		14,777
Foreign exchange movement		187
Balance, September 30, 2015	$	89,191
Depreciation		11,704
Disposals		(877)
Foreign exchange movement		(213)
Balance, September 30, 2016	**$**	**99,805**
Carrying amount		
Carrying value at September 30, 2014	$	56,754
Carrying value at September 30, 2015	$	42,092
Carrying value at September 30, 2016	**$**	**28,302**

(Expressed in Canadian dollars, except where expressed otherwise)

8. Associate and joint ventures

(a) Saponis Investments S.p. 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, 2016, the Company's investment in Saponis was $Nil (2015 - $Nil).

(b) Joyce Podlasie LLC

As at September 30, 2015, the Company, through its subsidiary, Kaynes, held a 50% interest in Joyce. The remaining 50% interest in Joyce was owned by San Leon Energy Plc ("San Leon"). During the year ended September 30, 2016, 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, 2016, the Company was in the process of exiting from all investments in Poland, including Joyce.

(c) Maryani Podlasie, LLC

As at September 30, 2015, the Company, through its subsidiary, Kaynes, held a 50% interest in Maryani. The remaining 50% interest in Maryani was 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. During the year ended September 30, 2016, the Company was in the process of exiting from all investments in Poland, including Maryani.

(d) EERL Holdings (BVI) Ltd.

As at September 30, 2016, 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, 2016, the investment in EERL Holdings is $119,880 (September 30, 2015 – $124,857).

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

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

	September 30, 2016	September 30, 2015
Cash and cash equivalents	**$ 22,677**	$ 62,585
Accounts receivable	**396,658**	239,816
Investment in Telemu	**51,950**	175,509
Accounts payable and accrued liabilities	**(131,957)**	-
Net assets	**$ 339,328**	$ 477,910

(Expressed in Canadian dollars, except where expressed otherwise)

8. Associate and joint ventures (continued)

(d) EERL Holdings (BVI) Ltd. (continued)

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

		Year ended September 30, 2016		Year ended September 30, 2015
Expenses	**$**	**(9,960)**	$	(906)
EERL Holdings' share of Telemu's loss		**(121,833)**		(139,010)
Foreign exchange gain		**-**		(4,075)
Net loss		**(131,793)**		(143,991)
Other comprehensive income		**(6,789)**		200,406
Total comprehensive income	**$**	**(138,582)**	$	56,415

(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, 2016		September 30, 2015
Opening net assets	**$**	**477,910**	**$**	**1,379,045**
Distribution		**-**		**(957,550)**
Net loss		**(131,793)**		**(143,991)**
Other comprehensive income		**(6,789)**		**200,406**
	$	**339,328**	$	477,910
Percentage interest in joint venture		**50.00%**		50.00%
Interest in joint venture		**169,664**		238,955
Less: investment in Telemu		**(25,975)**		(87,755)
Exchange gains on joint venure assets		**(23,809)**		(26,343)
Investment in joint venture	**$**	**119,880**	$	124,857

(Expressed in Canadian dollars, except where expressed otherwise)

9. Decommissioning obligations

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

	September 30, 2016	September 30, 2015
Balance, beginning of the year	**$ -**	$ 55,876
Accretion expense	**-**	581
Settlement of decommissioning obligations	**-**	(50,362)
Foreign exchange	**-**	(6,095)
Total decomissioning obligations	**$ -**	$ -

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. On March 2015, the Archer Well was plugged and abandoned, which resulted in a decommissioning obligation of $Nil as at September 30, 2016.

10. Loans payable

(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.

The difference between the outstanding balance of US$3,377,776 and the repaid amount of US$1,600,000, was recorded as a gain on settlement of debt of Cdn$2,184,680.

For the year ended September 30, 2016, the interest expense related to the Credit Facilities was $Nil (September 30, 2015 - $138,726). Interest was accrued at a fixed rate of 7% per annum, compounded semi-annually.

(b) Loan

As at September 30, 2016, the Company has a loan payable due to EERL Holdings of $231,893 (September 30, 2015 - $236,713). The loan is non-interest bearing and has no fixed date of repayment.

(Expressed in Canadian dollars, except where expressed otherwise)

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) Stock options

(i) Movements in stock options during the year

The changes in share options during the years ended September 30, 2015 and 2016 were as follows:

	September 30, 2016			September 30, 2015		
	Number of Options		**Average Exercise Price**	Number of Options		Average Exercise Price
Balance, beginning of the year	3,312,500	$	0.30	1,256,500	$	0.63
Granted	-		-	2,376,000		0.10
Expired	(278,750)		2.40	-		-
Forfeited	(50,750)		0.10	(320,000)		0.10
Balance, end of the year	**2,983,000**	**$**	**0.10**	**3,312,500**	**$**	**0.30**

Options granted and vested during the year ended September 30, 2016, resulted in share based payment expense of $34,724 (September 30, 2015 - $186,009).

(Expressed in Canadian dollars, except where expressed otherwise)

11. Share capital (continued)

(c) Stock options (continued)

(i) Movements in stock options during the year (continued)

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.

(ii) Fair value of stock options granted

During the year ended September 30, 2016, no stock options were granted.

On April 2, 2015, of the 2,376,000 stock options granted, one third vested immediately, one third on October 2, 2015, and one third on April 2, 2016. The options expire on April 2, 2020.

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
Exercise price per option	$0.095
Share price at date of grant	$0.095
Expected life	5 years
Risk-free interest rate	0.73%
Dividend yield	Nil
Expected volatility	209.72%
Estimated fair value per option	$0.09

(iii) Stock options outstanding at the end of the year

The following table summarizes information about outstanding and exercisable options at September 30, 2016:

Options outstanding	**Options exercisable**	**Exercise price**	**Expiry date**
871,000	871,000	$0.12	January 8, 2019
2,112,000	2,112,000	$0.095	April 2, 2020
2,983,000	**2,983,000**		

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

Options outstanding	**Options exercisable**	**Exercise price**	**Expiry date**
231,250	231,250	$2.40	April 19, 2016
47,500	47,500	$2.40	July 18, 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**		

(Expressed in Canadian dollars, except where expressed otherwise)

11. Share capital (continued)

(c) Stock options (continued)

(iii) Stock options outstanding at the end of the year (continued)

During the year ended September 30, 2016, no new options were issued, 50,750 options (43,417 vested) were forfeited, and 1,430,000 options (including 14,667 that were forfeited) with an expiry date of April 2, 2020 vested. The weighted average remaining life of exercisable options is 3.15 years (September 30, 2015 – 3.35 years) and the weighted average exercise price of options exercisable at September 30, 2016 is $0.10 (September 30, 2015 - $0.30).

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, 2014	**$**	**612,023**
Distribution		(478,775)
Non-controlling interests' share of Telemu's loss		(208,690)
Foreign exchange translation		22,107
Balance, September 30, 2015	**$**	**(53,335)**
Non-controlling interests' share of Telemu's loss		(60,917)
Foreign exchange translation		(47,323)
Balance, September 30, 2016	**$**	**(161,575)**

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

		Year ended September 30,		
		2016		2015
Expenses		**(386,772)**		(1,325,013)
Total net losses	**$**	**(386,772)**	$	(1,325,013)
Net loss atributable to non-controlling interests	**$**	**(60,917)**	$	(208,690)
Current assets		**667,930**		209,418
Non-current assets		**641,216**		751,685
Current liabilities		**(1,965,271)**		(1,253,489)
Net assets	**$**	**(656,126)**	$	(292,386)
Net assets attributable to non-controlling interests	**$**	**(103,340)**	$	(46,051)
Foreign currency translation		**(58,235)**		(7,284)
Net assets attributable to non-controlling interests, after consolidation	**$**	**(161,575)**	$	(53,335)

(Expressed in Canadian dollars, except where expressed otherwise)

13. Income tax recovery (expense)

In March 2016, the Company received a US$946,950 tax refund. On October 2014, the Company received a US$1,532,675 tax refund.

The income tax recognized in profit or loss during the year ended September 30, 2016 consists of tax expense (September 30, 2015 - current tax recovery). The statutory rate was 26% in 2016 (26% in 2015). 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:

		2016		2015 (Restated Note 22)
Loss for the year before taxes	**$**	**(1,423,867)**	$	(1,824,192)
Statutory rates		**26.0%**		26.0%
Expected tax recovery		**(370,205)**		(474,290)
Difference in tax rates between foreign jurisdictions and Canada		**(660,952)**		(126,946)
Items not deductible for income tax purposes		**11,145**		57,153
Recovery of previously unrecognized losses (income)		**3,201**		(1,102,723)
Change in unrecognized tax benefit		**807,681**		312,694
Other		**212,331**		231,389
Income tax expense (recovery)	**$**	**3,201**	$	(1,102,723)

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

		September 30, 2016		September 30, 2015
Non-capital loss carry forwards	**$**	**129,936,794**	$	127,128,436
Capital loss carry forwards		**1,532,409**		1,532,409
Property, plant and equipment		**117,291**		103,500
Exploration and evaluation assets		**8,675,517**		8,599,389
Unrealized foreign exchange		**2,567,130**		2,358,939
	$	**142,829,141**	$	139,722,673

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 $129.9 million available to apply against future income for tax purposes. These losses expire between 2017 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.

(Expressed in Canadian dollars, except where expressed otherwise)

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*

	Year ended September 30,			
	2016		2015	
Write-down of loan receivable	**$**	**-**	$	(235,021)
Foreign currency translation loss-Saponis	**$**	**-**	$	(487,377)
Loss from discontinued operations	**$**	**-**	$	(722,398)

(b) *Statement of cash flows*

	Year ended September 30,			
	2016		**2015**	
			(Restated Note 22)	
Advances to associate and joint ventures	**$**	**-**	$	(235,021)
Foreign exchange			$	(487,377)
Cash flows from discontinued operations	**$**	**-**	$	(722,398)

15. Income (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,			
	2016		**2015**	
			(Restated Note 22)	
Net loss attributable to equity shareholders				
From continuing operations	**$**	**(1,366,151)**	$	(512,779)
From discontinued operations		**-**		(722,398)
	$	**(1,366,151)**	$	(1,235,177)
Weighted average number of ordinary shares		**39,762,771**		39,762,771
Effect of dilutive securities stock options		**-**		-
Diluted weighted average number of ordinary shares		**39,762,771**		39,762,771
Loss per share - basic and diluted from:				
Continuing operations	**$**	**(0.03)**	$	(0.01)
Discontinued operations	**$**	**-**	$	(0.02)

As at September 30, 2016, the Company has 2,983,000 (September 30, 2015 – 3,312,500) potential ordinary shares related to stock options that are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted income (loss) per share.

(Expressed in Canadian dollars, except where expressed otherwise)

16. Supplemental cash flow disclosure

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

		Year ended September 30 2016		Year ended September 30 2015
Accounts receivable	**$**	**(185,424)**	$	(507,148)
Prepaid expenses and other deposits		**164,916**		166,928
Accounts payable and accrued liabilities		**305,246**		292,190
Net changes in non-cash working capital items	**$**	**284,738**	$	(48,030)
Relating to:				
Operating activities	**$**	**284,738**	$	843,496
Investing activities		**-**		(891,526)
Net changes in non-cash working capital items	**$**	**284,738**	$	(48,030)

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.

One of the Company's related parties is 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 this related party. Expenses have been measured at the exchange amount which is determined on a cost recovery basis.

		Year ended September 30, 2016		Year ended September 30, 2015
Consulting fees	**$**	**34,000**	$	48,000
	$	**34,000**	$	48,000

Accounts payable and accrued liabilities at September 30, 2016, included $Nil (September 30, 2015 – $Nil) which was due to the related party.

The Company's other related party, owned 50% by the Company, had a loan payable due to EERL Holdings of $231,893 (September 30, 2015 - $236,713). The loan is non-interest bearing and has no fixed date of repayment.

(Expressed in Canadian dollars, except where expressed otherwise)

18. Compensation of key management personnel

The remuneration of members of key management personnel during the years ended September 30, 2016 and 2015 was as follows:

		Year ended September 30, 2016		Year ended September 30, 2015
Management fees				
Officers	$	291,607	$	512,088
Director fees				
Directors		12,000		24,000
Share-based payments *(i)*				
Directors and officers		23,150		132,135
	$	326,757	$	668,223

(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, 2016 and 2015. Accounts payable and accrued liabilities at September 30, 2016, include $Nil of directors fees payable (September 30, 2015 - $Nil). Accounts payable and accrued liabilities at September 30, 2016, include $997 due to a private company controlled by a director of the Company (September 30, 2015 - $4,568). 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, 2016 and 2015 are as follows:

September 30, 2016

	Papua New Guinea	Poland	United States	Canada	Total
Current assets	$ 644,674	$ 14,970	$ 5,879,166	$ 646,814	$ 7,185,624
Exploration and evaluation assets	2,915,406	-	-	-	2,915,406
Property, plant and equipment	-	-	-	- / 28,302	- / 28,302
Investment in associate and joint ventures	-	-	-	119,880	119,880
	$ 3,560,080	$ 14,970	$ 5,879,166	$ 794,996	$ 10,249,212

(Expressed in Canadian dollars, except where expressed otherwise)

19. Segmented information (continued)

(b) Geographic Information (continued)

September 30, 2015 (Restated Note 22)	Papua New Guinea	Poland	United States	Canada	Total
Current assets	$ 244,948	$ 25,697	$ 5,939,252	$ 2,101,283	$ 8,311,180
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	$ 5,939,252	$ 2,265,524	$ 11,690,725

The Company's expenses and income by geographic area for the years ended September 30, 2016 and 2015 are as follows:

Year ended September 30, 2016	**Papua New Guinea**	**Poland**	**United States**	**Canada**	**Total**
Net loss from					
Continuing operations	$ (364,122)	$ (72,575)	$ (108,565)	$ (881,806)	**$ (1,427,068)**
Discontinued operations	-	-	-	-	**-**
Net loss	**$ (364,122)**	**$ (72,575)**	**$ (108,565)**	**$ (881,806)**	**$ (1,427,068)**
Attributable to					
Non-controlling interest	$ (60,917)	$ -	$ -	$ -	**$ (60,917)**
Equity shareholders of the Company	(303,205)	(72,575)	(108,565)	(881,806)	**(1,366,151)**
	$ (364,122)	**$ (72,575)**	**$ (108,565)**	**$ (881,806)**	**$ (1,427,068)**

Year ended September 30, 2015 (Restated Note 22)	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from					
Continuing operations	$ (794,543)	$ 2,181,086	$ (2,837,633)	$ 729,621	$ (721,469)
Discontinued operations	-	(722,398)	-	-	(722,398)
Net income (loss)	$ (794,543)	$ 1,458,688	$ (2,837,633)	$ 729,621	$ (1,443,867)
Attributable to					
Non-controlling interest	(208,690)	-	-	-	(208,690)
Net loss attributable to equity shareholders of the Company	(585,853)	1,458,688	(2,837,633)	729,621	(1,235,177)
	$ (794,543)	$ 1,458,688	$ (2,837,633)	$ 729,621	$ (1,443,867)

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) 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 is not subject to externally imposed capital requirements.

21. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts 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, accounts 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.

(Expressed in Canadian dollars, except where expressed otherwise)

21. Financial instruments (continued)

(b) Financial risk management (continued)

(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 accounts receivable. Cash consists of cash on deposit in major banks that are considered to be creditworthy. Accounts receivable are comprised primarily of amounts due from GST receivables from the government in Canada. The carrying values of these 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 is available on demand.

Funding risk is the risk that the Company may not be able to raise equity financing in a timely manner and on terms acceptable to management. There is no assurance that such financing will be available when, and if, the Company requires additional equity financing (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, 2016 and 2015.

September 30, 2016	**Less than 1 year**	**1 - 5 years**	**Total**
Accounts payable and accrued liabilities	**$ 390,211**	**$ -**	**$ 390,211**
Loans payable	**231,893**	**-**	**231,893**
Total	**$ 622,104**	**$ -**	**$ 622,104**

September 30, 2015	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	$ 185,315	$ -	$ 185,315
Loans payable	236,713	-	236,713
Total	$ 422,028	$ -	$ 422,028

21. Financial instruments (continued)

(b) Financial risk management (continued)

(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.

(a) 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.

(b) 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. Cash held in US dollars as at September 30, 2016 is $5,207,802. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

22. Restatement of prior period amounts

During the preparation of the consolidated financial statements for the year ended September 30, 2016, Esrey determined that the current income tax recoveries being recognized by the entity as cash was collected should have been recognized on an accrual basis in the period in which the Company was entitled to the recovery.

The effect of the restatement on the consolidated statements of financial position as at October 1, 2014 and September 30, 2015 is as follows:

	September 30, 2015			October 1, 2014		
	As reported	**Adjustment**	**Restated**	**As reported**	**Adjustment**	**Restated**
Income tax receivable	$ -	$ 1,201,620	$ 1,201,620	$ -	$ 1,720,520	$ 1,720,520
Accumulated other comprehensive income	7,641,666	317,593	7,959,259	7,451,804	57,885	7,509,689
Deficit	(120,961,284)	884,027	(120,077,257)	(120,504,715)	1,662,635	(118,842,080)

(Expressed in Canadian dollars, except where expressed otherwise)

22. Restatement of prior period amounts (continued)

The effect of the restatement on the consolidated statement of comprehensive loss for the year ended September 30, 2015 is as follows:

	As reported	Adjustment	Restated
Income tax recovery	$ 1,881,331	$ (778,608)	$ 1,102,723
Net loss	(665,259)	(778,608)	(1,443,867)
Net loss to equity shareholders of the Company	(456,569)	(778,608)	(1,235,177)
Foreign currency translation gain for equity shareholders of the Company	189,862	259,708	449,570
Net income (loss) per share from continuing operations - basic and diluted	0.01	(0.02)	(0.01)

23. Subsequent event

On December 8, 2016, Esrey signed a non-binding Letter of Intent (the “LOI”) with Enablence Technologies Inc. (“Enablence”), an emerging supplier of optical components and subsystems for telecommunication access in metro and data center markets, that provides for a combination of the two companies (the “Business Combination”). Under the proposed terms of the LOI, Esrey shareholders will receive approximately 2 shares of Enablence for each share of Esrey owned, subject to final due diligence and the execution of a final arrangement agreement.