



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended December 31, 2015 and 2014

(in Canadian dollars)

(Unaudited)

NOTICE TO READER

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

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

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

Esrey Energy Ltd.

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

	Note	December 31, 2015	September 30, 2015
ASSETS			
Current assets			
Cash and cash equivalents		\$ 6,831,204	\$ 6,782,208
Amounts receivable		48,721	59,928
Income taxes receivable	11	1,310,579	-
Prepaid expenses and other deposits		103,479	267,424
		8,293,983	7,109,560
Non-current assets			
Exploration and evaluation assets	4	3,199,153	3,212,596
Property, plant and equipment	5	38,773	42,092
Investment in associate and joint ventures	6	194,057	124,857
		\$ 11,725,966	\$ 10,489,105
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 170,166	\$ 185,315
Decommissioning obligations	7	-	-
Loans payable	8	419,706	236,713
		589,872	422,028
Equity			
Share capital	9	110,392,414	110,392,414
Contributed surplus	9	13,065,046	13,047,616
Accumulated other comprehensive income		7,484,282	7,641,666
Non-controlling interest	10	(86,222)	(53,335)
Deficit		(119,719,426)	(120,961,284)
		11,136,094	10,067,077
		\$ 11,725,966	\$ 10,489,105

Going Concern (Note 2(c))

Commitments (Note 4)

Approved and authorized for issue by the Board on February 19, 2016.

(Signed) "Paul Larkin"

Director

(Signed) "David Cohen"

Director

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

Esrey Energy Ltd.

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

	Note	Three months ended December 31, 2015	Three months ended December 31, 2014
Expenses:			
Depreciation	5	\$ 3,268	\$ 3,703
General and administrative expenses		80,861	118,743
Professional fees		264,149	262,902
Share based payments	9(d)	17,430	11,983
Travel and business development		830	14,793
Impairment of exploration and evaluation assets	4	-	2,622,862
		(366,538)	(3,034,986)
Other income (expenses):			
Accretion expense	7	-	(537)
Interest expense	8(a)	-	(65,158)
Interest income		793	1,961
Other income		3,641	657
Loss from investment in joint venture		(69,200)	(1,914)
Foreign exchange gain		384,448	294,231
		319,682	229,240
Loss for the period before income tax		(46,856)	(2,805,746)
Income tax recovery	11	1,263,150	1,740,114
Income (loss) from continuing operations		1,216,294	(1,065,632)
Loss from discontinued operations	12	-	(87,858)
Net income (loss) for the period		\$ 1,216,294	\$ (1,153,490)
Attributable to:			
Non-controlling interest	10	(25,564)	7,110
Equity shareholders of the Company		1,241,858	(1,160,600)
		\$ 1,216,294	\$ (1,153,490)
Other comprehensive income			
Foreign currency translation gain attributed to non-controlling interest		7,321	1,307
Foreign currency translation gain (loss) for equity shareholders of the Company		157,447	(94,305)
		\$ 1,381,062	\$ (1,246,488)
Income (loss) per share			
Basic and diluted from continuing operations	13	\$ 0.03	\$ (0.03)
Basic and diluted from discontinued operations	13	\$ -	\$ (0.00)

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

Esrey Energy Ltd.

Unaudited condensed consolidated interim 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, 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 9d)	-	-	11,983	-	-	-	11,983
Net loss for the year	-	-	-	-	7,110	(1,160,600)	(1,153,490)
Foreign currency translation	-	-	-	(94,305)	1,307	-	(92,998)
Balance, December 31, 2014	39,762,771	\$ 110,392,414	\$ 12,873,590	\$ 7,357,499	\$ 620,440	\$ (121,665,315)	\$ 9,578,628
Share based payments (Note 9d)	-	-	174,026	-	-	-	174,026
Distribution (Note 10)	-	-	-	-	(478,775)	-	(478,775)
Net loss for the year	-	-	-	-	(215,800)	704,031	488,231
Foreign currency translation	-	-	-	284,167	20,800	-	304,967
Balance, September 30, 2015	39,762,771	\$ 110,392,414	\$ 13,047,616	\$ 7,641,666	\$ (53,335)	\$ (120,961,284)	\$ 10,067,077
Share based payments (Note 9d)	-	-	17,430	-	-	-	17,430
Net loss for the quarter	-	-	-	-	(25,564)	1,241,858	1,216,294
Foreign currency translation	-	-	-	(157,384)	(7,323)	-	(164,707)
Balance, December 31, 2015	39,762,771	\$ 110,392,414	\$ 13,065,046	\$ 7,484,282	\$ (86,222)	\$ (119,719,426)	\$ 11,136,094

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

Esrey Energy Ltd.

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

	Note	Three months ended December 31, 2015	Three months ended December 31, 2014
Operating activities			
Loss before income taxes		\$ (46,856)	\$ (2,893,604)
Adjustments to net loss for non-cash items			
Depreciation	5	3,268	3,703
Share based payments	9(c)	17,430	11,983
Impairment of exploration and evaluation assets	4	-	2,622,862
Accretion expense	7	-	537
Interest expense	8(a)	-	65,158
Interest income		(793)	(1,961)
Loss from investment in joint venture		69,200	1,914
Foreign exchange gain		(430,786)	(294,231)
Net changes in non-cash working capital items	14	162,199	52,220
		(226,338)	(431,419)
Adjustments to net loss for cash items			
Interest income received		794	1,290
Interest expense paid		-	(203)
Realized foreign exchange loss		(2,029)	(1,887)
Taxes (paid) received		(1,091)	1,740,114
Cash from (used in) operating activities by continuing operations		(228,664)	1,307,895
Cash from operating activities by discontinued operations	12(a)	-	87,858
		(228,664)	1,395,753
Financing activities:			
Loans from joint ventures		164,402	-
		164,402	-
Investing activities:			
Advances to associate and joint ventures	6, 12	-	(87,858)
Investment in joint ventures	6	(138,400)	-
Exploration and evaluation expenditures	4	(37,966)	(127,772)
		(176,366)	(215,630)
Foreign exchange effect on cash and cash equivalents		289,624	299,746
Net (decrease) increase in cash and cash equivalents		48,996	1,479,869
Cash and cash equivalents, beginning of period		6,782,208	8,099,814
Cash and cash equivalents, end of period		\$ 6,831,204	\$ 9,579,683

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

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

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 unaudited condensed consolidated interim 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 February 19, 2016.

(b) *Basis of measurement*

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

The preparation of financial statements in accordance with IFRS requires management to make certain critical accounting estimates and exercise judgment in applying the Company's accounting policies. As a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period involves the use of estimates, which have been made using careful judgment. Actual results may differ from these estimates. The areas involving a higher degree of judgment, complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 of the Company's audited consolidated financial statements for the year ended September 30, 2015.

(c) *Going concern*

These unaudited condensed consolidated interim 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 4). 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

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

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

3. Significant accounting policies

The preparation of these unaudited condensed consolidated interim financial statements is based on accounting principles and practices consistent with those used in the preparation of the audited consolidated financial statements as at September 30, 2015, amended, were applicable, by the adoption of the new amended accounting standards outlined below. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2015.

(a) 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.

(b) 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.

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

(ii) IFRS 9 Financial Instruments

In 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.

(iii) IFRS 16 Leases

In January 2016, the IASB issued International Financial Reporting Standard 16, Leases (IFRS 16) which replaces the existing lease accounting guidance. IFRS 16 requires all leases to be reported on the balance sheet unless certain criteria for exclusion are met. IFRS 16 is effective for the year ending December 31, 2019 with early adoption permitted if IFRS 15 is also adopted at the same time. The Company is currently assessing the impact of IFRS 16 on its financial statements.

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

4. 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	37,966	-	-	-	37,966
Foreign exchange movement	(807,970)	-	-	-	(807,970)
Balance, December 31, 2015	\$ 49,140,300	\$ 1,477,745	\$ 3,188,756	\$ 7,570,435	\$ 61,377,236
Accumulated depletion and 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	(756,561)	-	-	-	(756,561)
Balance, December 31, 2015	\$ 45,941,147	\$ 1,477,745	\$ 3,188,756	\$ 7,570,435	\$ 58,178,083
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 December 31, 2015	\$ 3,199,153	\$ -	\$ -	\$ -	\$ 3,199,153

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

(a) Papua New Guinea

(i) Licenses

As at December 31, 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 February 19, 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 4(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 December 31, 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 February 19, 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. On 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.

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

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 4(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 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 December 31, 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

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

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 has assumed 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. 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.

(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\$7,570,435) has already been funded. These costs remain fully impaired as at December 31, 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 6). 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 6).

As at December 31, 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.

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

(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 7). 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 December 31, 2015.

(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.

5. Property, plant and equipment

Cost	
Balance, September 30, 2014	\$ 130,981
Foreign exchange movement	302
Balance, September 30, 2015	\$ 131,283
Foreign exchange movement	(54)
Balance, December 31, 2015	\$ 131,229
Accumulated depreciation and impairment losses	
Balance, September 30, 2014	\$ 74,227
Depreciation	14,777
Foreign exchange movement	187
Balance, September 30, 2015	\$ 89,191
Depreciation	3,268
Foreign exchange movement	(3)
Balance, December 30, 2015	\$ 92,456
Carrying amount	
Carrying value at September 30, 2014	\$ 56,754
Carrying value at September 30, 2015	\$ 42,092
Carrying value at December 31, 2015	\$ 38,773

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

6. 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 December 31 2015, the Company's investment in Saponis was \$Nil.

(b) Joyce Podlasie LLC ("Joyce")

As at December 31, 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 December 31, 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 December 31, 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 December 31, 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 December 31, 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 December 31, 2015, the investment in EERL Holdings is \$194,057 (September 30, 2015 – \$124,857).

7. Decommissioning obligations

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

	December 31, 2015	September 30, 2015
Balance, beginning of the period	\$ -	\$ 55,876
Accretion expense	-	581
Settlement of decommissioning obligations	-	(50,362)
Foreign exchange	-	(6,095)
Total current decommissioning 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 December 31, 2015.

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

8. Loans payable

	December 31, 2015	September 30, 2015
Credit facilities	\$ -	\$ -
Loan payable	419,706	236,713
Loans payable	\$ 419,706	\$ 236,713

(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 three months ended December 31, 2015, the interest expense related to the Credit Facilities was \$nil. (Three months ended December 31, 2014 - \$61,158) and was payable upon maturity. Interest was accrued at a fixed rate of 7% per annum, compounded semi-annually.

(b) Loan

As at December 31, 2015, the Company has a loan payable due to EERL Holdings of \$419,706 (September 30, 2015 - \$236,713). The loan is non-interest bearing and has no fixed date of repayment.

9. 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

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

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) Share options

(i) Movements in share options during the period

The changes in share options during the three months ended December 31, 2015 and year ended September 30, 2015 were as follows:

	December 31, 2015		September 30, 2015	
	Number of	Average	Number of	Average
	Options	Exercise	Options	Exercise
		Price		Price
Balance, beginning of the period	3,312,500	\$0.30	1,256,500	\$0.63
Granted	-	-	2,376,000	\$0.095
Forfeited	-	-	(320,000)	\$0.10
Balance, end of the period	3,312,500	\$0.30	3,312,500	\$0.30

Options granted and vested during the three months ended December 31, 2015, resulted in share-based payment expense of \$17,430 (three months ended December 31, 2014 - \$11,983).

(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.

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

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

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

The following table summarizes information about outstanding and exercisable options at December 31, 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	1,437,333	\$0.095	April 2, 2020
3,312,500	2,593,833		

During the three months ended December 31, 2015, no new options were issued, none were cancelled, and a further 718,666 options with an expiry date of April 2, 2020 vested. The weighted average remaining life of exercisable options is 3.42 years (September 30, 2015 – 3.35 years) and the weighted average exercise price of options exercisable at December 31, 2015 is \$0.30 (September 30, 2015 - \$0.30).

10. 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 income		(25,564)
Foreign exchange translation		(7,323)
Balance, December 31, 2015	\$	(86,222)

11. Income tax recovery (expense)

The Company is expecting to receive a US\$946,950 tax refund in February 2016. On October 2014, the Company received a US\$1,532,675 tax refund.

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

12. Discontinued operations

In March, 2015, 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*

	Three months ended December 31,	
	2015	2014
Write-down of loan receivable	\$ -	\$ 87,858
Loss from discontinued operations	\$ -	\$ 87,858

(b) *Statement of cash flows*

	Three months ended December 31,	
	2015	2014
Advances to associate and joint ventures	\$ -	\$ (87,858)
Cash flows from discontinued operations	\$ -	\$ (87,858)

13. Gain (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:

	December 31, 2015	December 31, 2014
Net gain (loss) attributable to equity shareholders		
From continuing operations	\$ 1,285,494	\$ (1,072,742)
From discontinued operations	-	(87,858)
	\$ 1,285,494	\$ (1,160,600)
Weighted average number of ordinary shares	39,762,771	39,762,711
Effect of dilutive securities		
Stock options	-	-
Diluted weighted average number of ordinary shares	39,762,771	39,762,711
Income (loss) per share		
Basic and diluted from continuing operations	\$ 0.03	\$ (0.03)
Basic and diluted from discontinued operations	\$ -	\$ (0.00)

As at December 31, 2015, the Company has 2,593,833 (September 30, 2015 – 1,875,167) potential ordinary shares that are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted gain (loss) per share.

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

14. 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:

	Three months ended December 31,	
	2015	2014
Amounts receivable	\$ (75,672)	\$ 1,149
Prepaid expenses and other deposits	159,518	69,461
Accounts payable and accrued liabilities	78,353	(18,390)
Net changes in non-cash working capital items	\$ 162,199	\$ 52,220
Relating to:		
Operating activities	\$ 162,199	\$ 52,220
Investing activities	-	-
Net changes in non-cash working capital items	\$ 162,199	\$ 52,220

15. 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.

	Three months ended December 31,	
	2015	2014
Consulting fees	\$ 12,000	\$ 12,000
	\$ 12,000	\$ 12,000

Amounts due to the related party are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at December 31, 2015, included \$nil (September 30, 2015 – \$nil) which was due to the related party.

16. Compensation of key management personnel

The remuneration of members of key management personnel during the three months ended December 31, 2015 and 2014 was as follows:

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

	Three months ended December 31,	
	2015	2014
Management fees		
Officers	\$ 117,798	\$ 129,231
Director fees		
Directors	6,000	6,000
Share-based payments (i)		
Directors and officers	11,561	9,866
	\$ 135,359	\$ 145,097

- (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 three months ended December 31, 2015 and 2014. Accounts payable and accrued liabilities at December 31, 2015, include \$nil of directors fees payable (September 30, 2015 - \$nil). Accounts payable and accrued liabilities at December 31, 2015, included \$nil due to private companies controlled by an officer and director of the Company (September 30, 2015 - \$nil). Amounts due to or from related parties are unsecured, non-interest bearing and due on demand.

17. Segmented information

(a) Geographic Information

The Company's assets by geographic areas as at December 31, 2015 and September 30, 2015 are as follows:

	December 31, 2015				Total
	Papua New Guinea	Poland	United States	Canada	
Current assets	\$ 760,504	\$ 25,341	\$ 6,079,654	\$ 1,428,484	\$ 8,293,983
Exploration and evaluation assets	3,199,153	-	-	-	3,199,153
Property, plant and equipment	2,089	70	-	36,614	38,773
Investment in associate and joint ventures	-	-	-	194,057	194,057
	\$ 3,961,746	\$ 25,411	\$ 6,079,654	\$ 1,659,155	\$ 11,725,966

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

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

The Company's expenses and income by geographic area for the three months ended December 31, 2015 and 2014, are as follows:

Three months ended December 31, 2015					
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from Continuing operations	\$ (3,954)	\$ 48,804	\$ 981,472	\$ 189,972	\$ 1,216,294
Discontinued operations	-	-	-	-	-
Net income (loss)	\$ (3,954)	\$ 48,804	\$ 981,472	\$ 189,972	\$ 1,216,294
Attributable to					
Non-controlling interest	\$ (25,564)	\$ -	\$ -	\$ -	\$ (25,564)
Equity shareholders of the Company	21,610	48,804	981,472	189,972	1,241,858
	\$ (3,954)	\$ 48,804	\$ 981,472	\$ 189,972	\$ 1,216,294

Three months ended December 31, 2014					
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from Continuing operations	\$ 144,240	\$ (61,494)	\$ (1,159,708)	\$ 11,330	\$ (1,065,632)
Discontinued operations	-	(87,858)	-	-	(87,858)
Net income (loss)	\$ 144,240	\$ (149,352)	\$ (1,159,708)	\$ 11,330	\$ (1,153,490)
Attributable to					
Non-controlling interest	7,110	-	-	-	7,110
Net loss attributable to equity shareholders of the Company	137,130	(149,352)	(1,159,708)	11,330	(1,160,600)
	\$ 144,240	\$ (149,352)	\$ (1,159,708)	\$ 11,330	\$ (1,153,490)

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

18. 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.

19. 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.

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

(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 December 31, 2015 and September 30, 2015.

December 31, 2015				
	Less than 3 months	3 - 12 months	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 31,738	\$ 138,428	\$ -	\$ 170,166
Loans payable	419,706	-	-	419,706
Total	\$ 451,444	\$ 138,428	\$ -	\$ 589,872

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

(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.

Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements
(Expressed in Canadian dollars, except number of shares and per share amounts)

(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. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.