



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the Three and Six Months Ended March 31, 2017 and 2016**

**(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 Professional 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 | March 31,<br>2017   | September 30,<br>2016 |
|--|------|---------------------|-----------------------|
| <b>ASSETS</b>                              |      |                     |                       |
| Current assets                             |      |                     |                       |
| Cash and cash equivalents                  |      | \$ 6,381,777        | \$ 6,928,818          |
| Amounts receivable                         |      | 165,203             | 166,321               |
| Prepaid expenses and other deposits        |      | 134,163             | 90,485                |
|  |      | <b>6,681,143</b>    | <b>7,185,624</b>      |
| Non-current assets                         |      |                     |                       |
| Exploration and evaluation assets          | 4    | 2,925,713           | 2,915,406             |
| Property, plant and equipment              | 5    | 23,379              | 28,302                |
| Investment in associate and joint ventures | 6    | 117,224             | 119,880               |
|  |      | <b>\$ 9,747,459</b> | <b>\$ 10,249,212</b>  |
| <b>LIABILITIES</b>                         |      |                     |                       |
| Current liabilities                        |      |                     |                       |
| Accounts payable and accrued liabilities   |      | \$ 298,647          | \$ 390,211            |
| Loans payable                              | 7    | 235,225             | 231,893               |
|  |      | <b>533,872</b>      | <b>622,104</b>        |
| <b>Equity</b>                              |      |                     |                       |
| Share capital                              | 8    | 110,392,414         | 110,392,414           |
| Contributed surplus                        | 8    | 13,082,340          | 13,082,340            |
| Accumulated other comprehensive income     |      | 9,904,581           | 7,757,337             |
| Non-controlling interest                   | 9    | (165,204)           | (161,575)             |
| Deficit                                    |      | (124,000,544)       | (121,443,408)         |
|  |      | <b>9,213,587</b>    | <b>9,627,108</b>      |
|  |      | <b>\$ 9,747,459</b> | <b>\$ 10,249,212</b>  |

Going Concern (Note 2(c))

Commitments (Note 4)

Approved and authorized for issue by the Board on May 12, 2017.

(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<br>March 31, |                       | Six months ended<br>March 31, |                    |
|--|------|---------------------------------|-----------------------|-------------------------------|--------------------|
|  |      | 2017                            | 2016                  | 2017                          | 2016               |
| <b>Expenses:</b>   |      |                                 |                       |                               |                    |
| Depreciation   | 5    | \$ 2,461                        | \$ 2,917              | \$ 4,923                      | \$ 6,185           |
| General and administrative expenses  |      | 76,090                          | 109,246               | 156,797                       | 190,107            |
| Professional fees  |      | 174,357                         | 233,143               | 310,318                       | 497,292            |
| Share based payments   | 8(d) | -                               | 17,034                | -                             | 34,464             |
| Travel and business development  |      | 19,051                          | 3,073                 | 19,051                        | 3,903              |
|  |      | <b>(271,959)</b>                | <b>(365,413)</b>      | <b>(491,089)</b>              | <b>(731,951)</b>   |
| <b>Other income (expenses):</b>  |      |                                 |                       |                               |                    |
| Interest income  |      | 614                             | 901                   | 1,764                         | 1,694              |
| Other income   |      | 4,533                           | 2,909                 | 7,829                         | 6,550              |
| Loss from disposal of equipment  | 5    | -                               | (1,974)               | -                             | (1,974)            |
| Loss from investment in joint venture  |      | (2,219)                         | 1,304                 | (2,655)                       | (67,896)           |
| Foreign exchange gain (loss)   |      | (68,643)                        | (673,930)             | 231,411                       | (289,482)          |
|  |      | <b>(65,715)</b>                 | <b>(670,790)</b>      | <b>238,349</b>                | <b>(351,108)</b>   |
| Income (loss) for the period before income tax                                     |      | <b>(337,674)</b>                | <b>(1,036,203)</b>    | <b>(252,740)</b>              | <b>(1,083,059)</b> |
| Income tax recovery  | 10   | -                               | 13,673                | -                             | 1,276,823          |
| Income (loss) from continuing operations<br>after income tax                       |      | <b>(337,674)</b>                | <b>(1,022,530)</b>    | <b>(252,740)</b>              | <b>193,764</b>     |
| Loss from discontinued operations<br>after income tax                              | 11   | <b>(201)</b>                    | <b>-</b>              | <b>(2,309,184)</b>            | <b>-</b>           |
| <b>Net income (loss) for the period</b>  |      | <b>\$ (337,875)</b>             | <b>\$ (1,022,530)</b> | <b>\$ (2,561,924)</b>         | <b>\$ 193,764</b>  |
| Attributable to:   |      |                                 |                       |                               |                    |
| Non-controlling interest   | 9    | (5,895)                         | (11,676)              | (4,788)                       | (37,240)           |
| Equity shareholders of the Company   |      | (331,980)                       | (1,010,854)           | (2,557,136)                   | 231,004            |
|  |      | <b>\$ (337,875)</b>             | <b>\$ (1,022,530)</b> | <b>\$ (2,561,924)</b>         | <b>\$ 193,764</b>  |
| <b>Other comprehensive income</b>  |      |                                 |                       |                               |                    |
| Foreign currency translation gain (loss)<br>attributed to non-controlling interest |      | <b>(4,882)</b>                  | <b>(45,489)</b>       | <b>1,159</b>                  | <b>(38,168)</b>    |
| Foreign currency translation gain<br>for equity shareholders of the<br>Company     |      | <b>(58,036)</b>                 | <b>25,547</b>         | <b>2,147,244</b>              | <b>(182,994)</b>   |
|  |      | <b>\$ (400,793)</b>             | <b>\$ (1,042,472)</b> | <b>\$ (413,521)</b>           | <b>\$ (27,398)</b> |
| <b>Income (loss) per share</b>   |      |                                 |                       |                               |                    |
| Basic and diluted from continuing operations                                       | 12   | \$ (0.01)                       | \$ (0.03)             | \$ (0.01)                     | \$ 0.01            |
| Basic and diluted from discontinued operations                                     | 12   | \$ (0.00)                       | \$ -                  | \$ (0.06)                     | \$ -               |

# Esrey Energy Ltd.

Unaudited condensed consolidated interim statements of changes in equity  
(Expressed in Canadian dollars, except for share amounts)

|  | Number of<br>shares | Share capital         | Contributed<br>surplus | Accumulated<br>other<br>comprehensive<br>income | Non-<br>controlling<br>interest | Deficit                 | Total equity         |
|--|---------------------|-----------------------|------------------------|---|---------------------------------|-------------------------|----------------------|
| <b>Balance, October 1, 2015 (Restated Note 19)</b> | <b>39,762,771</b>   | <b>\$ 110,392,414</b> | <b>\$ 13,047,616</b>   | <b>\$ 7,959,259</b>                             | <b>\$ (53,335)</b>              | <b>\$ (120,077,257)</b> | <b>\$ 11,268,697</b> |
| Share based payments (Note 8d)                     | -                   | -                     | 34,724                 | -   | -                               | -                       | 34,724               |
| Net gain (loss) for the quarter                    | -                   | -                     | -                      | -   | (37,240)                        | 231,004                 | 193,764              |
| Foreign currency translation                       | -                   | -                     | -                      | (182,994)                                       | (38,168)                        | -                       | (221,162)            |
| <b>Balance, March 31, 2016 (Restated Note 19)</b>  | <b>39,762,771</b>   | <b>\$ 110,392,414</b> | <b>\$ 13,082,340</b>   | <b>\$ 7,776,265</b>                             | <b>\$ (128,743)</b>             | <b>\$ (119,846,253)</b> | <b>\$ 11,276,023</b> |
| Share based payments (Note 8d)                     | -                   | -                     | -                      | -   | -                               | -                       | -                    |
| Net gain (loss) for the year                       | -                   | -                     | -                      | -   | (23,677)                        | (1,597,155)             | (1,620,832)          |
| Foreign currency translation                       | -                   | -                     | -                      | (18,928)  | (9,155)                         | -                       | (28,083)             |
| <b>Balance, September 30, 2016</b>                 | <b>39,762,771</b>   | <b>\$ 110,392,414</b> | <b>\$ 13,082,340</b>   | <b>\$ 7,757,337</b>                             | <b>\$ (161,575)</b>             | <b>\$ (121,443,408)</b> | <b>\$ 9,627,108</b>  |
| Share based payments (Note 8d)                     | -                   | -                     | -                      | -   | -                               | -                       | -                    |
| Net gain (loss) for the quarter                    | -                   | -                     | -                      | -   | (4,788)                         | (2,557,136)             | (2,561,924)          |
| Foreign currency translation                       | -                   | -                     | -                      | 2,147,244                                       | 1,159                           | -                       | 2,148,403            |
| <b>Balance, March 31, 2017</b>                     | <b>39,762,771</b>   | <b>\$ 110,392,414</b> | <b>\$ 13,082,340</b>   | <b>\$ 9,904,581</b>                             | <b>\$ (165,204)</b>             | <b>\$ (124,000,544)</b> | <b>\$ 9,213,587</b>  |

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<br>March 31, |                     | Six months ended<br>March 31, |                     |
|--|------|---------------------------------|---------------------|-------------------------------|---------------------|
|  |      | 2017                            | 2016                | 2017                          | 2016                |
| <b>Operating activities</b>                                  |      |                                 |                     |                               |                     |
| Income (loss) before income taxes                            |      | \$ (337,875)                    | \$ (1,036,203)      | \$ (2,561,924)                | \$ (1,083,059)      |
| Adjustments to net loss for non-cash items                   |      |                                 |                     |                               |                     |
| Depreciation   | 5    | 2,461                           | 2,917               | 4,923                         | 6,185               |
| Share based payments   | 8(c) | -                               | 17,034              | -                             | 34,464              |
| Interest income  |      | (614)                           | (901)               | (1,764)                       | (1,694)             |
| Loss from disposal of equipment                              | 5    | -                               | 1,974               | -                             | 1,974               |
| Loss from investment in joint venture                        |      | 2,219                           | (1,304)             | 2,655                         | 67,896              |
| Foreign exchange loss (gain)                                 |      | 68,643                          | 720,268             | (231,411)                     | 289,482             |
| Net changes in non-cash working capital items                | 12   | (102,136)                       | 19,963              | (98,755)                      | 182,162             |
|  |      | (367,302)                       | (276,252)           | (2,886,276)                   | (502,590)           |
| Adjustments to net income (loss) for cash items              |      |                                 |                     |                               |                     |
| Interest income received                                     |      | 614                             | 902                 | 1,764                         | 1,696               |
| Realized foreign exchange gain                               |      | (1,059)                         | 2,362               | (2,727)                       | 333                 |
| Taxes received   |      | -                               | 1,277,914           | -                             | 1,276,823           |
| Cash from operating activities by continuing operations      |      | (367,747)                       | 1,004,926           | (2,887,239)                   | 776,262             |
| Cash used by operating activities by discontinued operations |      | (3,546)                         | -                   | 2,305,437                     | -                   |
|  |      | (371,293)                       | 1,004,926           | (581,802)                     | 776,262             |
| <b>Financing activities:</b>                                 |      |                                 |                     |                               |                     |
| Loans from joint ventures                                    |      | -                               | (300)               | -                             | 164,102             |
|  |      | -                               | (300)               | -                             | 164,102             |
| <b>Investing activities:</b>                                 |      |                                 |                     |                               |                     |
| Investment in joint ventures                                 | 6    | -                               | 8,530               | -                             | (129,870)           |
| Exploration and evaluation expenditures                      | 4    | -                               | (26,645)            | -                             | (64,611)            |
|  |      | -                               | (18,115)            | -                             | (194,481)           |
| Foreign exchange effect on cash and cash equivalents         |      | (119,972)                       | (509,169)           | 34,761                        | (219,545)           |
| Net increase in cash and cash equivalents                    |      | (491,265)                       | 477,342             | (547,041)                     | 526,338             |
| Cash and cash equivalents, beginning of period               |      | 6,873,042                       | 6,831,204           | 6,928,818                     | 6,782,208           |
| <b>Cash and cash equivalents, end of period</b>              |      | <b>\$ 6,381,777</b>             | <b>\$ 7,308,546</b> | <b>\$ 6,381,777</b>           | <b>\$ 7,308,546</b> |

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

# Esrey Energy Ltd.

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Notes to the unaudited condensed consolidated interim financial statements  
(Expressed in Canadian dollars)

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## 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 of the Company for the three and six months ended March 31, 2017, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee. They have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's September 30, 2016 audited annual financial statements.

The significant accounting policies applied in these financial statements are based on IFRS issued and outstanding policies as of May 12, 2017, the date the Board of Directors approved the financial statements.

### (b) Basis of measurement

These unaudited condensed consolidated interim financial statements have been prepared on a 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, 2016.

### (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.

# Esrey Energy Ltd.

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Notes to the unaudited condensed consolidated interim financial statements  
(Expressed in Canadian dollars)

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## 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 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 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, 2016, 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, 2016.

### (a) *Application of new and revised IFRS*

Effective October 1, 2016, there were no new or revised IFRS that were issued by the IASB that were adopted by the Company.



# Esrey Energy Ltd.

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Notes to the unaudited condensed consolidated interim financial statements  
(Expressed in Canadian dollars)

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## 3. Significant accounting policies (continued)

### (b) Future accounting pronouncements

Certain pronouncements have been issued by the IASB that are mandatory for accounting years beginning after October 1, 2016 or later years.

*Accounting standards issued but not yet effective:*

- (i) Amended standard IFRS 2, *Share-based Payments*  
The amendments to IFRS 2 intend to eliminate diversity in practice related to the classification and measurement of share-based payment transactions. Effective for annual periods on or after January 1, 2018.
- (ii) Amended standard IFRS 7, *Financial Instruments: Disclosures*  
The amendments to IFRS 7 outline the disclosures required when initially applying IFRS 9 *Financial Instruments*. Effective for annual periods on or after January 1, 2018.
- (iii) New standard IFRS 9, *Financial Instruments*  
This new standard is a replacement of IAS 39 *Financial Instruments: Recognition and Measurement*. Effective for annual periods on or after January 1, 2018.
- (iv) New standard IFRS 15, *Revenue from Contracts with Customers*  
IFRS 15 provides guidance on how and when revenue from contracts with customers is to be recognized, along with new disclosure requirements in order to provide financial statement users with more informative and relevant information. Effective for annual periods on or after January 1, 2018.
- (v) New standard IFRS 16, *Leases*  
IFRS 16 replaces existing lease accounting guidance. All leases will be required to be reported on the statement of financial position unless certain requirements for exclusion are met. Effective for annual periods commencing on or after January 1, 2019.

The Company has not early adopted these new and amended standards and is currently assessing the impact that these standards will have on the 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         |
|--|------------------|--------------|---------------|--------------|---------------|
| <b>Cost</b>  |                  |              |               |              |               |
| <b>Balance, September 30, 2015</b>                 | \$ 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)   |
| <b>Balance, September 30, 2016</b>                 | \$ 44,137,706    | \$ 1,477,745 | \$ 3,188,756  | \$ 7,570,435 | \$ 56,374,642 |
| Additions  | -                | -            | -             | -            | -             |
| Foreign exchange movement                          | 156,045          | -            | -             | -            | 156,045       |
| <b>Balance, March 31, 2017</b>                     | \$ 44,293,751    | \$ 1,477,745 | \$ 3,188,756  | \$ 7,570,435 | \$ 56,530,687 |
| <b>Accumulated depletion and impairment losses</b> |                  |              |               |              |               |
| <b>Balance, September 30, 2015</b>                 | \$ 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)   |
| <b>Balance, September 30, 2016</b>                 | \$ 41,222,300    | \$ 1,477,745 | \$ 3,188,756  | \$ 7,570,435 | \$ 53,459,236 |
| Impairment   | -                | -            | -             | -            | -             |
| Foreign exchange movement                          | 145,738          | -            | -             | -            | 145,738       |
| <b>Balance, March 31, 2017</b>                     | \$ 41,368,038    | \$ 1,477,745 | \$ 3,188,756  | \$ 7,570,435 | \$ 53,604,974 |
| <b>Carrying amounts</b>                            |                  |              |               |              |               |
| Carrying value at September 30, 2015               | \$ 3,212,596     | \$ -         | \$ -          | \$ -         | \$ 3,212,596  |
| Carrying value at September 30, 2016               | \$ 2,915,406     | \$ -         | \$ -          | \$ -         | \$ 2,915,406  |
| <b>Carrying value at March 31, 2017</b>            | \$ 2,925,713     | \$ -         | \$ -          | \$ -         | \$ 2,925,713  |

# Esrey Energy Ltd.

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

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## 4. 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 180<sup>th</sup> 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.

# Esrey Energy Ltd.

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

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## 4. Exploration and evaluation assets (continued)

### (a) Papua New Guinea (continued)

#### (ii) Licenses

As at March 31, 2017, 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 PPL 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 at May 12, 2017, approval for the variance has not been received. Management believes that the variance will be approved by the Minister. If the variance application is unsuccessful, the DPE may cancel the license which potentially may result in the carrying amount of \$1,059,316 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 March 31, 2017, 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 February 28, 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.

# Esrey Energy Ltd.

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Notes to the unaudited condensed consolidated interim financial statements  
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## 4. 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 March 31, 2017, 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 \$1,866,397 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. An application for the Etropole Concession was denied in July 2014 and appealed by TransAtlantic and the Company. On June 15, 2016, the relevant court reaffirmed the decision of the Ministry of Energy 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.

# Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements  
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## 4. 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 6). The Company withdrew from its interest in its associate Saponis Investments Sp.z.o.o on March 31, 2015 and withdrew from its remaining two joint ventures in Poland, dissolving the associated Delaware LLCs (Joyce Podlaise LLC and Maryani Podlaise LLC) during the six months ended March 31, 2017.

During the six months ended March 31, 2017, the Company also wound up its 100% owned subsidiary, Kaynes thereby fully withdrawing from Poland.

### (d) United States

During the six months ended March 31, 2017, the Company wound up its 100% owned Delaware subsidiary, Evolution Oil Group LLC.

## 5. Property, plant and equipment

|   |                   |
|---|-------------------|
| <b>Cost</b>                             |                   |
| Balance, September 30, 2015             | \$ 131,283        |
| Disposals                               | (2,760)           |
| Foreign exchange movement               | (416)             |
| Balance, September 30, 2016             | \$ 128,107        |
| Foreign exchange movement               | (4,087)           |
| <b>Balance, March 31, 2017</b>          | <b>\$ 124,020</b> |
| <b>Accumulated depreciation</b>         |                   |
| Balance, September 30, 2015             | \$ 89,191         |
| Depreciation                            | 11,704            |
| Disposals                               | (877)             |
| Foreign exchange movement               | (213)             |
| Balance, September 30, 2016             | \$ 99,805         |
| Depreciation                            | 4,923             |
| Foreign exchange movement               | (4,087)           |
| <b>Balance, March 31, 2017</b>          | <b>\$ 100,641</b> |
| <b>Carrying amount</b>                  |                   |
| Carrying value at September 30, 2015    | \$ 42,092         |
| Carrying value at September 30, 2016    | \$ 28,302         |
| <b>Carrying value at March 31, 2017</b> | <b>\$ 23,379</b>  |

# Esrey Energy Ltd.

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## 6. Subsidiaries and joint ventures

### (a) Subsidiaries

| Name of subsidiary                       | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held |                    |
|--|--------------------|--------------------------------------|--|--------------------|
|  |                    |                                      | March 31, 2017   | September 30, 2016 |
| LNG Energy (BC) Ltd. ("LNG BC")          | Holding Company    | British Columbia                     | 100%   | 100%               |
| LNG Exploration Ltd. ("LNG Exploration") | Holding Company    | British Columbia                     | 100%   | 100%               |
| Kaynes Capital S.a.r.l. ("Kaynes")       | Holding Company    | Luxembourg                           | 0%   | 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%               |
| 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%             |

During the six months ended March 31, 2017, the Company wound up its investment in Kaynes as part of the process to complete its exit from its Poland operations. See Note 11 – discontinued operations for further information. The Company also wound up its investment in Evolution Oil Group LLC. See Note 4(d).

### (b) Joint ventures

| Name of joint venture                      | Principal activity | Place of incorporation and operation | Proportion of ownership interest and voting power held |                    |
|--|--------------------|--------------------------------------|--|--------------------|
|  |                    |                                      | March 31, 2017   | September 30, 2016 |
| Joyce Podlasie LLC ("Joyce")               | Holding Company    | Delaware                             | 0%   | 50%                |
| Maryani Podlasie LLC ("Maryani")           | Holding Company    | Delaware                             | 0%   | 50%                |
| EERL Holdings (BVI) Ltd. ("EERL Holdings") | Holding Company    | British Virgin Islands               | 50%  | 50%                |

# Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements  
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## 6. Subsidiaries and joint ventures (continued)

### *Joyce Podlasie LLC*

As at September 30, 2016, 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 March 31, 2017, the Company exited from all investments in Poland, including Joyce.

### *Maryani Podlasie, LLC*

As at September 30, 2016, 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. As at March 31, 2017, the Company exited from all investments in Poland, including Maryani.

### *EERL Holdings (BVI) Ltd.*

As at March 31, 2017, the Company holds a 50% interest in EERL Holdings. The remaining 50% ownership is owned by a third party. EERL Holdings owns 31.5% of Telemu. As at March 31, 2017, the investment in EERL Holdings is \$117,224 (September 30, 2016 – \$119,880).

## 7. Loans payable

As at March 31, 2017, the Company has a loan payable due to EERL Holdings of \$235,225 (September 30, 2016 - \$231,893). The loan is non-interest bearing and has no fixed date of repayment.

## 8. Share capital

### (a) Authorized

- Unlimited number of common shares with no par value.

### (b) Share options

The changes in share options during the six months ended March 31, 2017 and year ended September 30, 2016 were as follows:

|                                   | March 31, 2017   |               | September 30, 2016 |               |
|-----------------------------------|------------------|---------------|--------------------|---------------|
|                                   | Number of        | Average       | Number of          | Average       |
|                                   | Options          | Exercise      | Options            | Exercise      |
|                                   |                  | Price         |                    | Price         |
| Balance, beginning of the period  | 2,983,000        | \$0.10        | 3,312,500          | \$0.30        |
| Expired                           | -                | -             | (278,750)          | \$2.40        |
| Forfeited                         | (2,000)          | \$0.10        | (50,750)           | \$0.10        |
| <b>Balance, end of the period</b> | <b>2,981,000</b> | <b>\$0.10</b> | <b>2,983,000</b>   | <b>\$0.10</b> |



# 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. Share capital (continued)

### (b) Share options (continued)

During the six months ended March 31, 2017, no new options were issued and 2,000 stock options were forfeited at an exercise price of \$0.12. The weighted average exercise price of options exercisable at March 31, 2017 is \$0.10 (September 30, 2016 - \$0.10).

The following table summarizes information about outstanding and exercisable options at March 31, 2017.

| <b>Options<br/>outstanding</b> | <b>Options<br/>exercisable</b> | <b>Exercise<br/>price</b> | <b>Expiry date</b> |
|--------------------------------|--------------------------------|---------------------------|--------------------|
| 869,000                        | 869,000                        | \$0.12                    | January 8, 2019    |
| 2,112,000                      | 2,112,000                      | \$0.095                   | April 2, 2020      |
| <b>2,981,000</b>               | <b>2,981,000</b>               |                           |                    |

The weighted average remaining life of exercisable options is 2.65 years (September 30, 2016 – 3.15 years).

## 9. 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:

|   |           |                  |
|---|-----------|------------------|
| <b>Balance, September 30, 2015</b>                  | <b>\$</b> | <b>(53,335)</b>  |
| Non-controlling interests' share of Telemu's loss   |           | (60,917)         |
| Foreign exchange translation                        |           | (47,323)         |
| <b>Balance, September 30, 2016</b>                  | <b>\$</b> | <b>(161,575)</b> |
| Non-controlling interests' share of Telemu's income |           | (4,788)          |
| Foreign exchange translation                        |           | 1,159            |
| <b>Balance, March 31, 2017</b>                      | <b>\$</b> | <b>(165,204)</b> |

## 10. Income tax recovery (expense)

In March 2016, the Company received a US\$946,950 tax refund.

# Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements  
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## 11. Discontinued operations

During the six months ended March 31, 2017, the Company wound up its 100% owned subsidiary, Kaynes thereby fully withdrawing from Poland. The following table presents summarized financial information related to the discontinued operations of the Company's assets in Poland:

*Statement of comprehensive loss:*

|   | Three months ended<br>March 31, |             | Three months ended<br>March 31, |             |
|---|---------------------------------|-------------|---------------------------------|-------------|
|   | 2017                            | 2016        | 2017                            | 2016        |
| Foreign currency income (loss)                    | (217)                           | -           | (2,305,437)                     | -           |
| Income tax expense                                | 16                              | -           | (3,747)                         | -           |
| <b>Income (loss) from discontinued operations</b> | <b>\$ (201)</b>                 | <b>\$ -</b> | <b>\$ (2,309,184)</b>           | <b>\$ -</b> |

## 12. 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:

|  | Three months ended<br>March 31, |                      | Three months ended<br>March 31, |                   |
|--|---------------------------------|----------------------|---------------------------------|-------------------|
|  | 2017                            | 2016                 | 2017                            | 2016              |
| <b>Net gain (loss) attributable to equity shareholders</b> |                                 |                      |                                 |                   |
| From continuing operations                                 | \$ (331,779)                    | \$(1,010,854)        | \$ (247,952)                    | \$ 231,004        |
| From discontinued operations                               | (201)                           | -                    | (2,309,184)                     | -                 |
|  | <b>\$ (331,980)</b>             | <b>\$(1,010,854)</b> | <b>\$ (2,557,136)</b>           | <b>\$ 231,004</b> |
| Weighted average number of ordinary shares                 | 39,762,771                      | 39,762,771           | 39,762,771                      | 39,762,771        |
| Effect of dilutive securities                              |                                 |                      |                                 |                   |
| Stock options  | 167,335                         | -                    | 77,937                          | -                 |
| ordinary shares  | <b>39,930,106</b>               | 39,762,771           | <b>39,840,708</b>               | 39,762,771        |
| <b>Income (loss) per share</b>                             |                                 |                      |                                 |                   |
| Basic and diluted from continuing operations               | \$ (0.01)                       | \$(0.03)             | \$ (0.01)                       | \$ 0.01           |
| Basic and diluted from discontinued operations             | \$ (0.00)                       | -                    | \$ (0.06)                       | -                 |

As at March 31, 2017, the Company has 869,000 (September 30, 2016 – 2,983,000) 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.

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## 13. 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  |                  | Six months ended   |                   |
|--|---------------------|------------------|--------------------|-------------------|
|  | March 31,           |                  | March 31,          |                   |
|  | 2017                | 2016             | 2017               | 2016              |
| Amounts receivable and GST recoverable               | \$ 29,851           | \$ 1,341         | \$ 43,951          | \$ (74,331)       |
| Prepaid expenses and other deposits                  | (51,316)            | (8,260)          | (43,658)           | 151,258           |
| Accounts payable and accrued liabilities             | (80,671)            | 26,882           | (99,048)           | 105,235           |
| <b>Net changes in non-cash working capital items</b> | <b>\$ (102,136)</b> | <b>\$ 19,963</b> | <b>\$ (98,755)</b> | <b>\$ 182,162</b> |
| Relating to:   |                     |                  |                    |                   |
| Operating activities                                 | \$ (102,136)        | \$ 19,963        | \$ (98,755)        | \$ 182,162        |
| Investing activities                                 | -                   | -                | -                  | -                 |
| <b>Net changes in non-cash working capital items</b> | <b>\$ (102,136)</b> | <b>\$ 19,963</b> | <b>\$ (98,755)</b> | <b>\$ 182,162</b> |

## 14. 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.

|                 | Three months ended |           | Six months ended |           |
|-----------------|--------------------|-----------|------------------|-----------|
|                 | March 31,          |           | March 31,        |           |
|                 | 2017               | 2016      | 2017             | 2016      |
| Consulting fees | \$ 6,000           | \$ 10,000 | \$ 12,000        | \$ 22,000 |
|                 | \$ 6,000           | \$ 10,000 | \$ 12,000        | \$ 22,000 |

Accounts payable and accrued liabilities at March 31, 2017, included \$Nil (September 30, 2016 – \$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 \$235,225 as at March 31, 2017 (September 30, 2016 - \$231,893). The loan is non-interest bearing and has no fixed date of repayment.

# Esrey Energy Ltd.

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## 15. Compensation of key management personnel

The remuneration of members of key management personnel during the three and six months ended March 31, 2017 and 2016 was as follows:

|                          | Three months ended March<br>31, |                   | Six months ended<br>March 31, |                   |
|--------------------------|---------------------------------|-------------------|-------------------------------|-------------------|
|                          | 2017                            | 2016              | 2017                          | 2016              |
| Management fees          |                                 |                   |                               |                   |
| Officers                 | \$ 39,703                       | \$ 96,067         | \$ 79,609                     | \$ 213,865        |
| Director fees            |                                 |                   |                               |                   |
| Directors                | 6,000                           | 6,000             | 24,000                        | 12,000            |
| Share-based payments (i) |                                 |                   |                               |                   |
| Directors and officers   | -                               | 11,414            | -                             | 22,975            |
|                          | <b>\$ 45,703</b>                | <b>\$ 113,481</b> | <b>\$ 103,609</b>             | <b>\$ 248,840</b> |

(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 six months ended March 31, 2017 and 2016. Accounts payable and accrued liabilities at March 31, 2017, include \$Nil of directors fees payable (September 30, 2016 - \$Nil). Accounts payable and accrued liabilities at March 31, 2017, included \$Nil due to private companies controlled by an officer and director of the Company (September 30, 2016 - \$997). Amounts due to or from related parties are unsecured, non-interest bearing and due on demand.

## 16. Segmented information

### Geographic Information

The Company's assets by geographic areas as at March 31, 2017 and September 30, 2016 are as follows:

|   | March 31, 2017      |             |                     |                   | Total               |
|---|---------------------|-------------|---------------------|-------------------|---------------------|
|   | Papua New<br>Guinea | Poland      | United<br>States    | Canada            |                     |
| Current assets                                | \$ 633,263          | \$ -        | \$ 5,940,013        | \$ 107,867        | <b>\$ 6,681,143</b> |
| Exploration and<br>evaluation assets          | 2,925,713           | -           | -                   | -                 | <b>2,925,713</b>    |
| Property, plant and<br>equipment              | -                   | -           | -                   | 23,379            | <b>23,379</b>       |
| Investment in associate<br>and joint ventures | -                   | -           | -                   | 117,224           | <b>117,224</b>      |
|   | <b>\$ 3,558,976</b> | <b>\$ -</b> | <b>\$ 5,940,013</b> | <b>\$ 248,470</b> | <b>\$ 9,747,459</b> |

# Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements  
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## 16. Segmented information (continued)

### Geographic Information (continued)

|   | September 30, 2016  |                  |                     |                   |                      |
|---|---------------------|------------------|---------------------|-------------------|----------------------|
|   | Papua New<br>Guinea | Poland           | United<br>States    | Canada            | Total                |
| Current assets                                | \$ 644,674          | \$ 14,970        | \$ 5,879,166        | \$ 646,814        | \$ 7,185,624         |
| Exploration and<br>evaluation assets          | 2,915,406           | -                | -                   | -                 | 2,915,406            |
| Property, plant and<br>equipment              | -                   | -                | -                   | 28,302            | 28,302               |
| Investment in associate<br>and joint ventures | -                   | -                | -                   | 119,880           | 119,880              |
|   | <b>\$ 3,560,080</b> | <b>\$ 14,970</b> | <b>\$ 5,879,166</b> | <b>\$ 794,996</b> | <b>\$ 10,249,212</b> |

The Company's expenses and income by geographic area for the three and six months ended March 31, 2017 and 2016, are as follows:

|   | Three months ended March 31, 2017 |                 |                    |                     |                     |
|---|-----------------------------------|-----------------|--------------------|---------------------|---------------------|
|   | Papua New<br>Guinea               | Poland          | United<br>States   | Canada              | Total               |
| Net income (loss) from<br>Continuing operations | \$ (71,583)                       | \$ -            | \$ (73,192)        | \$ (192,899)        | \$ (337,674)        |
| Discontinued operations                         | -                                 | (201)           | -                  | -                   | (201)               |
| <b>Net income (loss)</b>                        | <b>\$ (71,583)</b>                | <b>\$ (201)</b> | <b>\$ (73,192)</b> | <b>\$ (192,899)</b> | <b>\$ (337,875)</b> |
| <b>Attributable to</b>                          |                                   |                 |                    |                     |                     |
| Non-controlling interest                        | \$ (5,895)                        | \$ -            | \$ -               | \$ -                | \$ (5,895)          |
| Equity shareholders of<br>the Company           | (65,688)                          | (201)           | (73,192)           | (192,899)           | (331,980)           |
|   | <b>\$ (71,583)</b>                | <b>\$ (201)</b> | <b>\$ (73,192)</b> | <b>\$ (192,899)</b> | <b>\$ (337,875)</b> |

|   | Three months ended March 31, 2016 |                     |                   |                     |                       |
|---|-----------------------------------|---------------------|-------------------|---------------------|-----------------------|
|   | Papua New<br>Guinea               | Poland              | United States     | Canada              | Total                 |
| Net income (loss) from<br>Continuing operations | \$ (293,774)                      | \$ (129,000)        | \$ 211,604        | \$ (811,360)        | \$ (1,022,530)        |
| Net income (loss)                               | \$ (293,774)                      | \$ (129,000)        | \$ 211,604        | \$ (811,360)        | \$ (1,022,530)        |
| <b>Attributable to</b>                          |                                   |                     |                   |                     |                       |
| Non-controlling interest                        | \$ (11,676)                       | \$ -                | \$ -              | \$ -                | \$ (11,676)           |
| Equity shareholders of<br>the Company           | (282,098)                         | (129,000)           | 211,604           | (811,360)           | (1,010,854)           |
|   | <b>\$ (293,774)</b>               | <b>\$ (129,000)</b> | <b>\$ 211,604</b> | <b>\$ (811,360)</b> | <b>\$ (1,022,530)</b> |

# Esrey Energy Ltd.

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## 16. Segmented information (continued)

*Geographic Information (continued)*

| Six months ended March 31, 2017       |                     |                       |                   |                     |                       |  |
|---------------------------------------|---------------------|-----------------------|-------------------|---------------------|-----------------------|--|
|                                       | Papua New<br>Guinea | Poland                | United<br>States  | Canada              | Total                 |  |
| Net income (loss) from                |                     |                       |                   |                     |                       |  |
| Continuing operations                 | \$ 2,731            | \$ -                  | \$ (6,995)        | \$ (248,476)        | \$ (252,740)          |  |
| Discontinued operations               | -                   | (2,309,184)           | -                 | -                   | (2,309,184)           |  |
| <b>Net income (loss)</b>              | <b>\$ 2,731</b>     | <b>\$ (2,309,184)</b> | <b>\$ (6,995)</b> | <b>\$ (248,476)</b> | <b>\$ (2,561,924)</b> |  |
| <b>Attributable to</b>                |                     |                       |                   |                     |                       |  |
| Non-controlling interest              | \$ (4,788)          | \$ -                  | \$ -              | \$ -                | \$ (4,788)            |  |
| Equity shareholders of<br>the Company | 7,519               | (2,309,184)           | (6,995)           | (248,476)           | (2,557,136)           |  |
|                                       | <b>\$ 2,731</b>     | <b>\$ (2,309,184)</b> | <b>\$ (6,995)</b> | <b>\$ (248,476)</b> | <b>\$ (2,561,924)</b> |  |

| Six months ended March 31, 2016       |                     |                    |                     |                     |                   |  |
|---------------------------------------|---------------------|--------------------|---------------------|---------------------|-------------------|--|
|                                       | Papua New<br>Guinea | Poland             | United States       | Canada              | Total             |  |
| Net income (loss) from                |                     |                    |                     |                     |                   |  |
| Continuing operations                 | \$ (297,728)        | \$ (80,196)        | \$ 1,193,076        | \$ (621,388)        | \$ 193,764        |  |
| Net income (loss)                     | \$ (297,728)        | \$ (80,196)        | \$ 1,193,076        | \$ (621,388)        | \$ 193,764        |  |
| <b>Attributable to</b>                |                     |                    |                     |                     |                   |  |
| Non-controlling interest              | \$ (37,240)         | \$ -               | \$ -                | \$ -                | \$ (37,240)       |  |
| Equity shareholders of<br>the Company | (260,488)           | (80,196)           | 1,193,076           | (621,388)           | 231,004           |  |
|                                       | <b>\$ (297,728)</b> | <b>\$ (80,196)</b> | <b>\$ 1,193,076</b> | <b>\$ (621,388)</b> | <b>\$ 193,764</b> |  |

## 17. 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.

# Esrey Energy Ltd.

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

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## 18. Financial instruments

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

### (a) Fair value of financial instruments

#### (i) Fair value estimation of financial instruments

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

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

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

### (b) Financial risk management

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity and funding risk, and market risk. There have been no substantive changes in the Company's exposure to financial instrument risk, the Company's objectives, policies and processes for managing those risks or the methods used to measure them from previous years.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The overall objective of the Board is to set policies that seek to reduce the Company's risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

#### (i) Credit risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk arises principally from the Company's cash and cash equivalents and amounts receivable. Cash consists of cash on deposit in major banks that are considered to be creditworthy. Amounts receivable are comprised primarily of amounts due from GST receivables from the government in Canada. The carrying values of the financial assets represent the maximum credit exposure.

# Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements  
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## 18. Financial instruments (continued)

### (b) Financial risk management (continued)

#### (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 March 31, 2017 and September 30, 2016.

| March 31, 2017                           |                     |                |                   |
|--|---------------------|----------------|-------------------|
|  | Less than<br>1 year | 1 - 5<br>years | Total             |
| Accounts payable and accrued liabilities | \$ 29,595           | \$ -           | \$ 29,595         |
| Loans payable                            | 269,052             | -              | 269,052           |
| <b>Total</b>                             | <b>\$ 298,647</b>   | <b>\$ -</b>    | <b>\$ 298,647</b> |

  

| September 30, 2016                       |                     |                |                   |
|--|---------------------|----------------|-------------------|
|  | Less than<br>1 year | 1 - 5<br>years | Total             |
| Accounts payable and accrued liabilities | \$ 390,211          | \$ -           | \$ 390,211        |
| Loans payable                            | 231,893             | -              | 231,893           |
| <b>Total</b>                             | <b>\$ 622,104</b>   | <b>\$ -</b>    | <b>\$ 622,104</b> |



# Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements  
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## 18. 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. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

## 19. 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 December 31, 2015, September 30, 2015 and October 1, 2014 is as follows:

|   | December 31, 2015 |            |               |  |  |  |
|---|-------------------|------------|---------------|--|--|--|
|   | As reported       | Adjustment | Restated      |  |  |  |
| <b>Accumulated other comprehensive income</b> | 7,484,282         | 317,593    | 7,801,875     |  |  |  |
| <b>Deficit</b>                                | (119,719,426)     | 884,027    | (118,835,399) |  |  |  |

  

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

# Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements  
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## 19. 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)       |

## 20. Subsequent Event

Subsequent to quarter end, the Company entered into a non-binding letter of intent (“LOI”) with a private Malta company, PRG PLC (“PRG”), to acquire Power Zinc Limited (“Power Zinc”), a majority owned subsidiary of PRG, at arm’s length to the Company and its principals, whose principle assets include approximately 130,000 tonnes of zinc tailings located in Kosovo.

Under the terms of the LOI Esrey is to acquire 100% of the shares of Power Zinc from PRG and the minority shareholders of Power Zinc in exchange for 39,762,771 shares of Esrey (“Esrey shares”), which is the amount equal to 100% of the current issued and outstanding shares of Esrey.

The LOI also provides that Esrey loan US \$500,000 to Power Zinc, which was done subsequent to year end. The loan is guaranteed by PRG.

Closing remains subject to Esrey and PRG completing a satisfactory due diligence review of the other and entering into a definitive agreement by May 12, 2017. Closing is also subject to the acceptance of the acquisition by the TSX Venture Exchange.

As a result of the signing of the LOI, the Company requested a halt in the trading of its shares pending the release for further news.