esrey
ENERGY LTD

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Nine Months Ended June 30, 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	June 30, 2017	September 30, 2016
ASSETS			
Current assets			
Cash and cash equivalents		**$ 5,320,121**	$ 6,928,818
Amounts receivable		**138,167**	166,321
Promissory note	4	**671,350**	-
Deferred acquisition costs	21	**157,715**	-
Prepaid expenses and other deposits		**117,238**	90,485
		6,404,591	7,185,624
Non-current assets			
Exploration and evaluation assets	5	**2,889,392**	2,915,406
Property, plant and equipment	6	**20,918**	28,302
Investment in associate and joint ventures	7	**117,197**	119,880
		$ 9,432,098	$ 10,249,212
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**$ 362,169**	$ 390,211
Loans payable	8	**229,858**	231,893
		592,027	622,104
Equity			
Share capital	9	**110,392,414**	110,392,414
Contributed surplus		**13,082,340**	13,082,340
Accumulated other comprehensive income		**9,858,009**	7,757,337
Non-controlling interest	10	**(168,892)**	(161,575)
Deficit		**(124,323,800)**	(121,443,408)
		8,840,071	9,627,108
		$ 9,432,098	$ 10,249,212

Going Concern (Note 2(c))
Commitments (Note 5(a))

Approved and authorized for issue by the Board on August 25, 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 June 30, 2017	Three months ended June 30, 2016	Nine months ended June 30, 2017	Nine months ended June 30, 2016
Expenses:					
Depreciation	6	**$ 2,462**	$ 2,755	**$ 7,385**	$ 8,940
General and administrative expenses		**64,644**	65,419	**221,441**	255,526
Professional fees		**144,787**	150,694	**455,105**	647,986
Share based payments		**-**	260	**-**	34,724
Travel and business development		**138**	157	**19,189**	4,060
		(212,031)	(219,285)	**(703,120)**	(951,236)
Other income (expenses):					
Interest income		**2,526**	1,125	**4,290**	2,819
Other income		**4,620**	2,594	**12,449**	9,144
Gain (loss) from disposal of equipment	6	**-**	61	**-**	(1,913)
Loss from investment in joint venture		**(23)**	(13)	**(2,678)**	(67,909)
Foreign exchange gain (loss)		**(118,337)**	(89,418)	**113,074**	(378,900)
		(111,214)	(85,651)	**127,135**	(436,759)
Loss for the period before income tax		**(323,245)**	(304,936)	**(575,985)**	(1,387,995)
Income tax (expense) recovery	11	**-**	(18,324)	**-**	1,258,499
Loss from continuing operations after income tax		**(323,245)**	(323,260)	**(575,985)**	(129,496)
Gain (loss) from discontinued operations after income tax	12	**191**	-	**(2,308,993)**	-
Net loss for the period		**$ (323,054)**	$ (323,260)	**$ (2,884,978)**	$ (129,496)
Attributable to:					
Non-controlling interest	10	**202**	(6,152)	**(4,586)**	(43,392)
Equity shareholders of the Company		**(323,256)**	(317,108)	**(2,880,392)**	(86,104)
		$ (323,054)	$ (323,260)	**$ (2,884,978)**	$ (129,496)
Other comprehensive income					
Foreign currency translation loss attributed to non-controlling interest		**(3,890)**	(11,806)	**(2,731)**	(49,974)
Foreign currency translation gain (loss) for equity shareholders of the Company		**(46,572)**	(15,452)	**2,100,672**	(198,446)
		$ (373,516)	$ (350,518)	**$ (787,037)**	$ (377,916)
Income (loss) per share					
Basic and diluted from continuing operations	13	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.00)
Basic and diluted from discontinued operations	13	**$ 0.00**	$ -	**$ (0.06)**	$ -

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 (loss)	Non-controlling interest	Deficit	Total equity
Balance, October 1, 2015 (Restated Note 20)	**39,762,771**	**$ 110,392,414**	**$ 13,047,616**	**$ 7,959,259**	**$ (53,335)**	**$ (120,077,257)**	**$ 11,268,697**
Share based payments	-	-	34,724	-	-	-	34,724
Net loss for the period	-	-	-	-	(43,392)	(86,104)	(129,496)
Foreign currency translation	-	-	-	(198,446)	(49,974)	-	(248,420)
Balance, June 30, 2016 (Restated Note 20)	**39,762,771**	**$ 110,392,414**	**$ 13,082,340**	**$ 7,760,813**	**$ (146,701)**	**$ (120,163,361)**	**$ 10,925,505**
Share based payments	-	-	-	-	-	-	-
Net loss for the year	-	-	-	-	(17,525)	(1,280,047)	(1,297,572)
Foreign currency translation	-	-	-	(3,476)	2,651	-	(825)
Balance, September 30, 2016	**39,762,771**	**$ 110,392,414**	**$ 13,082,340**	**$ 7,757,337**	**$ (161,575)**	**$ (121,443,408)**	**$ 9,627,108**
Share based payments	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	(4,586)	(2,880,392)	(2,884,978)
Foreign currency translation	-	-	-	2,100,672	(2,731)	-	2,097,941
Balance, June 30, 2017	**39,762,771**	**$ 110,392,414**	**$ 13,082,340**	**$ 9,858,009**	**$ (168,892)**	**$ (124,323,800)**	**$ 8,840,071**

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 June 30, 2017	Three months ended June 30, 2016	Nine months ended June 30, 2017	Nine months ended June 30, 2016
Operating activities					
Loss before income taxes		**$ (319,292)**	$ (304,936)	**$ (2,881,216)**	$ (1,387,995)
Adjustments to net loss for non-cash items					
Depreciation	6	**2,462**	2,755	**7,385**	8,940
Share based payments		**-**	260	**-**	34,724
Interest income		**(2,526)**	(1,125)	**(4,290)**	(2,819)
Loss (gain) from disposal of equipment	6	**-**	(61)	**-**	1,913
Loss from investment in joint venture		**23**	13	**2,678**	67,909
Foreign exchange loss (gain)		**118,365**	89,418	**(113,046)**	378,900
Net changes in non-cash working capital items	14	**(450,036)**	(19,183)	**(548,791)**	162,979
		(651,004)	(232,859)	**(3,537,280)**	(735,449)
Adjustments to net loss for cash items					
Interest income received		**358**	1,123	**2,122**	2,819
Realized foreign exchange loss (gain)		**17,249**	(1,370)	**14,522**	(1,037)
Taxes received (paid)		**(68)**	(18,324)	**(68)**	1,258,499
Cash from operating activities by continuing operations		**(633,465)**	(251,430)	**(3,520,704)**	524,832
Cash used by operating activities by discontinued operations		**(206)**	-	**2,305,231**	-
		(633,671)	(251,430)	**(1,215,473)**	524,832
Financing activities:					
Loans from joint ventures		**-**	(5,048)	**-**	159,054
		-	(5,048)	**-**	159,054
Investing activities:					
Investment in joint ventures	7	**-**	700	**-**	(129,170)
Deferred acquisition costs	21	**(157,715)**	-	**(157,715)**	-
Exploration and evaluation expenditures	5	**-**	(18,661)	**-**	(83,272)
		(157,715)	(17,961)	**(157,715)**	(212,442)
Foreign exchange effect on cash and cash equivalents		**(270,270)**	(10,735)	**(235,509)**	(230,280)
Net increase in cash and cash equivalents		**(1,061,656)**	(285,174)	**(1,608,697)**	241,164
Cash and cash equivalents, beginning of period		**6,381,777**	7,308,546	**6,928,818**	6,782,208
Cash and cash equivalents, end of period		**$ 5,320,121**	$ 7,023,372	**$ 5,320,121**	$ 7,023,372

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. On July 21, 2017, the Company acquired zinc-rich tailings located in Kosovo (Note 21). 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 nine months ended June 30, 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 August 25, 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.

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 5). 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.

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.

4. Promissory note

Pursuant to a letter of intent signed between the Company and PRG Plc. ("PRG"), the Company agreed to loan Power Zinc Limited ("Power Zinc"), a subsidiary of PRG, up to US$2,000,000 in the form of a promissory note signed by Power Zinc on May 15, 2017. Amounts outstanding on the promissory note are guaranteed by PRG, are non-interest bearing, and are repayable upon the occurrence of certain events. As of June 30, 2017, a total of US$500,000 (Cdn$671,350) has been advanced pursuant to the promissory note.

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

5. Exploration and evaluation assets

	Papua New Guinea	Poland	United States	Bulgaria	Total
Cost					
Balance, September 30, 2015	**$ 49,910,304**	**$ 1,477,745**	**$ 3,188,756**	**$ 7,570,435**	**$ 62,147,240**
Additions	82,982	-	-	-	82,982
Foreign exchange movement	(5,855,580)	-	-	-	(5,855,580)
Balance, September 30, 2016	**$ 44,137,706**	**$ 1,477,745**	**$ 3,188,756**	**$ 7,570,435**	**$ 56,374,642**
Additions	-	-	-	-	-
Foreign exchange movement	(393,842)	-	-	-	(393,842)
Balance, June 30, 2017	**$ 43,743,864**	**$ 1,477,745**	**$ 3,188,756**	**$ 7,570,435**	**$ 55,980,800**
Accumulated depletion and impairment losses					
Balance, September 30, 2015	**$ 46,697,708**	**$ 1,477,745**	**$ 3,188,756**	**$ 7,570,435**	**$ 58,934,644**
Impairment	-	-	-	-	-
Foreign exchange movement	(5,475,408)	-	-	-	(5,475,408)
Balance, September 30, 2016	**$ 41,222,300**	**$ 1,477,745**	**$ 3,188,756**	**$ 7,570,435**	**$ 53,459,236**
Impairment	-	-	-	-	-
Foreign exchange movement	(367,828)	-	-	-	(367,828)
Balance, June 30, 2017	**$ 40,854,472**	**$ 1,477,745**	**$ 3,188,756**	**$ 7,570,435**	**$ 53,091,408**
Carrying amounts					
Carrying value at September 30, 2015	$ 3,212,596	$ -	$ -	$ -	$ 3,212,596
Carrying value at September 30, 2016	$ 2,915,406	$ -	$ -	$ -	$ 2,915,406
Carrying value at June 30, 2017	**$ 2,889,392**	**$ -**	**$ -**	**$ -**	**$ 2,889,392**

5. 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.

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 No. 18 Limited (“Telemu”),, LNG Energy (BC) Limited (“LNG BC”), LNG Energy (PNG) Limited (“LNG PNG”) and LNG Energy No. 2 Limited (“LNG No. 2”), entered into an amendment to the farm-in agreement with Heritage. In exchange for the extension of the deadline to spud the first exploration well from October 1, 2014, to December 31, 2015, the farm-in agreement included, among other items, a cash payment of US$2,500,000 (Cdn$2,710,250) and additional carry provisions in favor of Telemu.

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.

5**. Exploration and evaluation assets** (continued)

(a) Papua New Guinea (continued)

(ii) Licenses

As at June 30, 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 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.

On June 10, 2016, a variance was filed with the DPE requesting a change in the work program for PPL 486 resetting all requirements. 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 of August 25, 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 $1,046,165 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 June 30, 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 six-year license. PPL 321 expired in November 2014 and, as at August 25, 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.

5. 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. 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.

As of the date of these financial statements, these requirements have not been met. The Company has entered into discussions with the DPE regarding PRL 13, and the DPE has issued a letter of good standing pending the outcome of these ongoing discussions.

If an agreement cannot be reached with the DPE in regards to PRL 13, the result may be the loss of the license which will potentially result in the carrying amount of $1,843,226 related to PRL 13 being written off.

(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.

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

5. 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 7). 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 nine months ended June 30, 2017.

During the nine months ended June 30, 2017, the Company also wound up its 100% owned subsidiary, Kaynes thereby fully withdrawing from Poland.

(d) United States

During the nine months ended June 30, 2017, the Company wound up its 100% owned Delaware subsidiary, Evolution Oil Group LLC.

6. Property, plant and equipment

Cost		
Balance, September 30, 2015	$	131,283
Disposals		(2,760)
Foreign exchange movement		(416)
Balance, September 30, 2016	$	128,107
Foreign exchange movement		(4,087)
Balance, June 30, 2017	**$**	**124,020**
Accumulated depreciation		
Balance, September 30, 2015	$	89,191
Depreciation		11,704
Disposals		(877)
Foreign exchange movement		(213)
Balance, September 30, 2016	$	99,805
Depreciation		7,385
Foreign exchange movement		(4,088)
Balance, June 30, 2017	**$**	**103,102**
Carrying amount		
Carrying value at September 30, 2015	$	42,092
Carrying value at September 30, 2016	$	28,302
Carrying value at June 30, 2017	**$**	**20,918**

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

7. Subsidiaries and joint ventures

(a) Subsidiaries

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			June 30, 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 nine months ended June 30, 2017, the Company wound up its investment in Kaynes as part of the process to complete its exit from its Poland operations. See Note 12 – discontinued operations for further information. The Company also wound up its investment in Evolution Oil Group LLC. See Note 5(d).

(b) Joint ventures

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

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

7. 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 June 30, 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 June 30, 2017, the Company exited from all investments in Poland, including Maryani.

EERL Holdings (BVI) Ltd.

As at June 30, 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 June 30, 2017, the investment in EERL Holdings is $117,197 (September 30, 2016 – $119,880).

8. Loans payable

As at June 30, 2017, the Company has a loan payable due to EERL Holdings of $229,858 (September 30, 2016 - $231,893). 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) Share options

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

	June 30, 2017		September 30, 2016	
	Number of Options	**Average Exercise Price**	Number of Options	Average Exercise Price
Balance, beginning of the period	2,983,000	$0.10	3,312,500	$0.30
Expired	-	-	(278,750)	$2.40
Forfeited	(2,000)	$0.12	(50,750)	$0.10
Balance, end of the period	**2,981,000**	**$0.10**	**2,983,000**	**$0.10**

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

9. Share capital (continued)

(b) Share options (continued)

During the nine months ended June 30, 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 June 30, 2017 is $0.10 (September 30, 2016 - $0.10).

The following table summarizes information about outstanding and exercisable options at June 30, 2017.

Options outstanding	Options exercisable	Exercise price	Expiry date
869,000	869,000	$0.12	January 8, 2019
2,112,000	2,112,000	$0.095	April 2, 2020
2,981,000	**2,981,000**		

The weighted average remaining life of exercisable options is 2.40 years (September 30, 2016 – 3.15 years).

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, 2015	**$**	**(53,335)**
Non-controlling interests' share of Telemu's loss		(60,917)
Foreign exchange translation		(47,323)
Balance, September 30, 2016	**$**	**(161,575)**
Non-controlling interests' share of Telemu's income		(4,586)
Foreign exchange translation		(2,731)
Balance, June 30, 2017	**$**	**(168,892)**

11. Income tax recovery

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

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

12. Discontinued operations

During the nine months ended June 30, 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 June 30,		Nine months ended June 30,	
	2017	2016	**2017**	2016
Foreign currency income (loss)	**206**	-	**(2,305,231)**	-
Income tax expense	**(15)**	-	**(3,762)**	-
Income (loss) from discontinued operations	**$ 191**	$ -	**$ (2,308,993)**	$ -

13. 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 June 30,		Nine months ended June 30,	
	2017	2016	**2017**	2016
Net income (loss) attributable to equity shareholders				
From continuing operations	**$ (328,033)**	$ (317,108)	**$ (575,985)**	$ (86,104)
From discontinued operations	**191**	-	**(2,308,993)**	-
	$ (327,842)	$ (317,108)	**$ (2,884,978)**	$ (86,104)
Weighted average number of ordinary shares	**39,762,771**	39,762,771	**39,762,771**	39,762,771
Effect of dilutive securities				
Stock options	**389,886**	-	**194,343**	-
ordinary shares	**40,152,657**	39,762,771	**39,957,114**	39,762,771
Income (loss) per share				
Basic and diluted from continuing operations	**$ (0.01)**	$ (0.01)	**$ (0.01)**	$ (0.00)
Basic and diluted from discontinued operations	**$ 0.00**	$ -	**$ (0.06)**	$ -

As at June 30, 2017, the Company has 864,000 (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.

(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 June 30, 2017	Three months ended June 30, 2016	Nine months ended June 30, 2017	Nine months ended June 30, 2016
Amounts receivable and GST recoverable	**$ 142,471**	$ 10,923	**$ 186,422**	$ (63,408)
Promissory note	**$ (671,350)**	$ -	**$ (671,350)**	$ -
Prepaid expenses and other deposits	**16,857**	1,474	**(26,801)**	152,732
Accounts payable and accrued liabilities	**61,986**	(31,580)	**(37,062)**	73,655
Net changes in non-cash working capital items	**$ (450,036)**	$ (19,183)	**$ (548,791)**	$ 162,979
Relating to:				
Operating activities	**$ (450,036)**	$ (19,183)	**$ (548,791)**	$ 162,979
Investing activities	**-**	-	**-**	-
Net changes in non-cash working capital items	**$ (450,036)**	$ (19,183)	**$ (548,791)**	$ 162,979

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.

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 June 30, 2017	Three months ended June 30, 2016	Nine months ended June 30, 2017	Nine months ended June 30, 2016
Consulting fees	**$ 6,000**	$ 6,000	**$ 18,000**	$ 28,000
	$ 6,000	$ 6,000	**$ 18,000**	$ 28,000

Accounts payable and accrued liabilities at June 30, 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 $229,858 as at June 30, 2017 (September 30, 2016 - $231,893). The loan is non-interest bearing and has no fixed date of repayment.

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

16. Compensation of key management personnel

The remuneration of members of key management personnel during the three and nine months ended June 30, 2017 and 2016 was as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	**2017**	2016
Management fees				
Officers	**$ 40,398**	$ 38,638	**$ 120,007**	$ 252,503
Director fees				
Directors	**6,000**	-	**30,000**	12,000
Share-based payments *(i)*				
Directors and officers	**-**	175	**-**	23,150
	$ 46,398	$ 38,813	**$ 150,007**	$ 287,653

(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 nine months ended June 30, 2017 and 2016. Accounts payable and accrued liabilities at June 30, 2017, include $Nil of directors fees payable (September 30, 2016 - $Nil) and $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.

17. Segmented information

Geographic Information

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

June 30, 2017	Papua New Guinea	Poland	United States	Canada	Total
Current assets	$ 624,177	$ -	$ 3,654,720	$ 1,967,979	**$ 6,246,876**
Deferred acquisition costs	-	-	-	157,715	**157,715**
Exploration and evaluation assets	2,889,392	-	-	-	**2,889,392**
Property, plant and equipment	-	-	-	20,918	**20,918**
Investment in associate and joint ventures	-	-	-	117,197	**117,197**
	$ 3,513,569	**$ -**	**$ 3,654,720**	**$ 2,263,809**	**$ 9,432,098**

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

17. Segmented information (continued)

Geographic Information (continued)

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

The Company's expenses and income by geographic area for the three and nine months ended June 30, 2017 and 2016, are as follows:

	Three months ended June 30, 2017				
	Papua New Guinea	**Poland**	**United States**	**Canada**	**Total**
Net income (loss) from					
Continuing operations	$ (105,117)	$ -	$ (175,587)	$ (42,541)	**$ (323,245)**
Discontinued operations	-	191	-	-	**191**
Net income (loss)	**$ (105,117)**	**$ 191**	**$ (175,587)**	**$ (42,541)**	**$ (323,054)**
Attributable to					
Non-controlling interest	$ 202	$ -	$ -	$ -	**$ 202**
Equity shareholders of the Company	(105,319)	191	(175,587)	(42,541)	**(323,256)**
	$ (105,117)	**$ 191**	**$ (175,587)**	**$ (42,541)**	**$ (323,054)**

	Three months ended June 30, 2016				
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from					
Continuing operations	$ (41,782)	$ (23,523)	$ (68,290)	$ (189,665)	$ (323,260)
Net income (loss)	$ (41,782)	$ (23,523)	$ (68,290)	$ (189,665)	$ (323,260)
Attributable to					
Non-controlling interest	$ (6,152)	$ -	$ -	$ -	$ (6,152)
Equity shareholders of the Company	(35,630)	(23,523)	(68,290)	(189,665)	(317,108)
	$ (41,782)	$ (23,523)	$ (68,290)	$ (189,665)	$ (323,260)

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

17. Segmented information (continued)

Geographic Information (continued)

	Nine months ended June 30, 2017				
	Papua New Guinea	**Poland**	**United States**	**Canada**	**Total**
Net loss from					
Continuing operations	$ (102,386)	$ -	$ (182,582)	$ (448,732)	**$ (733,700)**
Discontinued operations	-	(2,308,993)	-	-	**(2,308,993)**
Net loss	**$ (102,386)**	**$ (2,308,993)**	**$ (182,582)**	**$ (448,732)**	**$ (3,042,693)**
Attributable to					
Non-controlling interest	$ (4,586)	$ -	$ -	$ -	**$ (4,586)**
Equity shareholders of the Company	(97,799)	(2,308,993)	(182,582)	(448,733)	**(3,038,107)**
	$ (102,385)	**$ (2,308,993)**	**$ (182,582)**	**$ (448,733)**	**$ (3,042,693)**

	Nine months ended June 30, 2016				
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from					
Continuing operations	$ (339,574)	$ (103,719)	$ 1,124,786	$ (810,989)	$ (129,496)
Net income (loss)	$ (339,574)	$ (103,719)	$ 1,124,786	$ (810,989)	$ (129,496)
Attributable to					
Non-controlling interest	$ (43,392)	$ -	$ -	$ -	$ (43,392)
Equity shareholders of the Company	(296,182)	(103,719)	1,124,786	(810,989)	(86,104)
	$ (339,574)	$ (103,719)	$ 1,124,786	$ (810,989)	$ (129,496)

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.

(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.

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

19. 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 June 30, 2017 and September 30, 2016.

June 30, 2017

	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	**$ 362,169**	**$ -**	**$ 362,169**
Loans payable	**229,858**	**-**	**229,858**
Total	**$ 592,027**	**$ -**	**$ 592,027**

September 30, 2016

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

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

19. 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.

20. 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**
Accumulated other comprehensive income	$ 7,484,282	$ 317,593	$ 7,801,875
Deficit	$ (119,719,426)	$ 884,027	$ (118,835,399)

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

20. Restatement of prior period amounts (continued)

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

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

	Year ended September 30, 2015		
	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)

21. Subsequent Events

On July 21, 2017, the Company completed the acquisition (the “Acquisition”) of the shares of Power Zinc Limited (“Power Zinc”), a private Malta company at arm’s length to the Company and its directors and officers, whose principal assets include the zinc rich Milosheve Stockpile Material (the “MSM”), located in Kosovo.

As consideration for the shares of Power Zinc, the Company issued a total of 39,762,769 shares, which shares were broadly distributed to approximately 100 persons. On completion of the Acquisition, the Company had 79,525,540 shares issued and outstanding. No insiders or control persons were created as a result of the Acquisition with the exception that Mr. Ray Power, the principal of PRG Plc, the parent corporation of Power Zinc prior to the closing of the Acquisition, now holds 8,125,471 shares of the Company (10.2%).

As at June 30, 2017, the Company incurred legal, consulting, and due diligence costs of $157,715 in connection with the Acquisition. These costs have been classified as “deferred acquisition costs” on the Company’s unaudited condensed consolidated interim statement of financial position.

On August 9, 2017, the Company granted 4,183,000 stock options pursuant to its previously approved stock option plan to directors, officers, employees and consultants of the Company. The options are subject to certain vesting provisions and are exercisable over five years at an exercise price of Cdn$0.125 per share. Following the issuance of these options, the Company has a total of 7,164,000 options outstanding pursuant to its stock option plan, which represent approximately 9% of the issued and outstanding common shares of the Company.