



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the Three Months Ended December 31, 2019 and 2018**

**(in Canadian dollars)**

**(Unaudited)**

# Esrey Resources Ltd.

(Unaudited)

December 31, 2019

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## **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 Resources Ltd.

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

	Note	December 31, 2019	September 30, 2019
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 229,796	\$ 228,195
Amounts receivable	4(b)	158,991	234,325
Prepaid expenses and deposits		11,813	-
		<b>400,600</b>	<b>462,520</b>
Non-current assets			
Right-of-use asset	3	270,548	-
Deposit	15	25,973	25,973
Investment in joint venture	4(b)	111,727	111,727
		<b>\$ 808,848</b>	<b>\$ 600,220</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities	4(b),11	\$ 1,802,430	\$ 1,831,977
Current portion of lease liabilities		61,653	-
Loan payable	6	229,209	233,697
		<b>2,093,292</b>	<b>2,065,674</b>
Long-term portion of lease liabilities	3	235,447	-
		<b>2,328,739</b>	<b>2,065,674</b>
<b>Equity</b>			
Share capital	7	117,291,708	117,291,708
Share purchase warrants	7(b)	1,960,356	1,960,356
Contributed surplus		13,555,568	13,555,568
Accumulated other comprehensive income		236,854	233,297
Non-controlling interest	8	(309,386)	(305,770)
Deficit		(134,254,991)	(134,200,613)
		<b>(1,519,891)</b>	<b>(1,465,454)</b>
		<b>\$ 808,848</b>	<b>\$ 600,220</b>

Going concern (Note 2(c))

Commitment (Note 15)

Contingencies (Note 16)

Subsequent events (Note 17)

Approved and authorized for issue by the Board on October 9, 2020.

*(Signed) "W. Joseph Yelder"*

Director

*(Signed) "David Pasko"*

Director

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

# Esrey Resources Ltd.

Unaudited condensed consolidated interim statements of loss and comprehensive loss  
(Expressed in Canadian dollars)

	Note	Three months ended December 31, 2019	Three months ended December 31, 2018
<b>Expenses:</b>			
Project development costs	5	\$ -	\$ 367,769
Depreciation	5	-	151,607
General and administrative expenses	11(a)	<b>12,526</b>	54,126
Occupancy expenses	3	<b>15,266</b>	-
Amortization of right-of-use asset	3	<b>18,037</b>	-
Salaries and management fees	11(a)	<b>4,000</b>	220,061
Legal, audit and accounting fees		<b>6,093</b>	32,292
Interest expense on lease liabilities	3	<b>8,516</b>	-
Share-based payments		-	2,161
		<b>(64,438)</b>	(828,016)
<b>Other income (expenses):</b>			
Interest income		-	1,260
Other income		<b>5,721</b>	3,624
Loss from investment in joint venture		-	(397)
Foreign exchange gain (loss)		<b>4,339</b>	(26,833)
		<b>10,060</b>	(22,346)
Loss before income taxes		<b>(54,378)</b>	(850,362)
Income tax expense (recovery)		-	-
<b>Net loss for the period</b>		<b>\$ (54,378)</b>	<b>\$ (850,362)</b>
Attributable to:			
Non-controlling interest	8	-	(13,178)
Equity shareholders of the Company		<b>(54,378)</b>	(837,184)
<b>Net loss for the period</b>		<b>\$ (54,378)</b>	<b>\$ (850,362)</b>
<b>Other comprehensive income (loss)</b>			
Foreign currency translation attributed to non-controlling interest		<b>(3,616)</b>	8,169
Foreign currency translation for equity shareholders of the Company		<b>3,557</b>	128,942
		<b>\$ (54,437)</b>	<b>\$ (713,251)</b>
<b>Diluted weighted average number of shares</b>	9	<b>100,175,306</b>	100,175,306
<b>Basic and diluted net loss per share attributable to equity shareholders of the Company</b>			
		<b>\$ (0.00)</b>	<b>\$ (0.01)</b>

# Esrey Resources Ltd.

Unaudited condensed consolidated interim statements of changes in equity  
(Expressed in Canadian dollars, except number of shares)

	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive (loss) income	Non- controlling interest	Deficit	Total equity
<b>Balance, September 30, 2018</b>	<b>100,175,306</b>	<b>\$ 117,291,708</b>	<b>\$ 1,960,356</b>	<b>\$ 13,552,623</b>	<b>\$ 139,966</b>	<b>\$ (307,780)</b>	<b>\$ (129,443,673)</b>	<b>\$ 3,193,200</b>
Share-based payments	-	-	-	2,161	-	-	-	2,161
Net loss for the period (restated)	-	-	-	-	-	3,038	(853,400)	(850,362)
Foreign currency translation	-	-	-	-	128,942	8,169	-	137,111
<b>Balance, December 31, 2018</b>	<b>100,175,306</b>	<b>\$ 117,291,708</b>	<b>\$ 1,960,356</b>	<b>\$ 13,554,784</b>	<b>\$ 268,908</b>	<b>\$ (296,573)</b>	<b>\$ (130,297,073)</b>	<b>\$ 2,482,110</b>
Share-based payments	-	-	-	784	-	-	-	784
Net loss for the year	-	-	-	-	-	(2,208)	(3,903,540)	(3,905,748)
Foreign currency translation	-	-	-	-	(35,611)	(6,989)	-	(42,600)
<b>Balance, September 30, 2019</b>	<b>100,175,306</b>	<b>\$ 117,291,708</b>	<b>\$ 1,960,356</b>	<b>\$ 13,555,568</b>	<b>\$ 233,297</b>	<b>\$ (305,770)</b>	<b>\$ (134,200,613)</b>	<b>\$ (1,465,454)</b>
Net loss for the year	-	-	-	-	-	-	(54,378)	(54,378)
Foreign currency translation	-	-	-	-	3,557	(3,616)	-	(59)
<b>Balance, December 31, 2019</b>	<b>100,175,306</b>	<b>\$ 117,291,708</b>	<b>\$ 1,960,356</b>	<b>\$ 13,555,568</b>	<b>\$ 236,854</b>	<b>\$ (309,386)</b>	<b>\$ (134,254,991)</b>	<b>\$ (1,519,891)</b>

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

# Esrey Resources Ltd.

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

	Note	Three months ended December 31, 2019	Three months ended December 31, 2018
<b>Operating activities</b>			
Loss before income taxes		\$ (54,378)	\$ (850,362)
Adjustments to net loss for non-cash items			
Depreciation		-	151,607
Share-based payments		-	2,161
Interest income		-	(1,211)
Loss from investment in joint venture		-	397
Amortization of right-of-use asset		18,037	-
Interest expense on lease liabilities		8,516	-
Foreign exchange (gain) loss		(4,339)	26,833
Net changes in non-cash working capital items	10	38,153	336,107
		5,989	(334,468)
Adjustments to net loss for cash items			
Interest income received		-	2,659
Realized foreign exchange (loss) gain		-	(2,143)
		5,989	(333,952)
<b>Investing activities:</b>			
Expenditures on pilot plant	5	-	(30,152)
		-	(30,152)
Foreign exchange effect on cash and cash equivalents		(4,388)	8,346
Net decrease in cash and cash equivalents		1,601	(355,758)
Cash and cash equivalents, beginning of the period		228,195	1,210,003
<b>Cash and cash equivalents, end of the period</b>		<b>\$ 229,796</b>	<b>\$ 854,245</b>

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

# Esrey Resources Ltd.

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

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## 1. Nature of operations

Esrey Resources Ltd. (the "Company" or "Esrey") was incorporated on February 24, 2000 in the Province of British Columbia, Canada and its common shares trade under the symbol "ESR" on the TSX Venture Exchange. The address of Esrey's registered office is Suite 1000, 355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

During the year ended September 30, 2019, the Company had a pilot metal recovery plant in Macedonia which focused on developing a hydrometallurgical process to efficiently extract zinc and other metals from feed waste material on an economically viable scale. Activities at the pilot plant was placed on hold in the fourth quarter of fiscal 2019. The Company expects that the hydrometallurgical process can also be applied in active mining operations. The Company is currently seeking financing alternatives and is pursuing new mineral resources projects where this process can be used.

## 2. Basis of presentation and going concern

### (a) *Statement of compliance*

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Reporting Standards Committee. They have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's consolidated financial statements for the year ended September 30, 2019.

The significant accounting policies applied in these financial statements are based on IFRS and outstanding policies as of October 9, 2020, 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 an historical cost basis, and are presented in Canadian dollars, unless otherwise indicated.

The preparation of financial statements in accordance with IFRS requires management to make certain critical accounting estimates and exercise judgment in applying the Company's accounting policies. As a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period involves the use of estimates, which have been made using careful judgment. Actual results may differ from these estimates. The areas involving a higher degree of judgment, complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 of the Company's audited consolidated financial statements for the year ended September 30, 2019.

### (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.



# Esrey Resources Ltd.

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

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## 2. Basis of presentation and going concern (continued)

### (c) *Going concern* (continued)

The Company has a working capital deficit as at December 31, 2019. In the short-term, the Company will require funding to eliminate this working capital deficit. The Company has no ability to raise financing until its financial disclosures are up to date with the TSX Venture Exchange and other regulatory authorities in Canada. The Company is currently the subject of cease trade orders due to not having completed the audit and filing of its consolidated financial statements and MD&A for the year ended September 30, 2019, and consequently the filing of its interim consolidated financial statements and MD&A for the three months ended December 31, 2019, for the six months ended March 31, 2020 and for the nine months ended June 30, 2020 by the required regulatory filing deadlines. The Company will actively seek to raise financing once the cease trade orders are revoked. There can be no assurance that short-term 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 continue as a going concern.

In the long term, the Company will require significant funding to seek new business opportunities in the mineral resource sector. 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 acquire new projects. Even if adequate funds are available, there is no guarantee that any new projects acquired would be successfully developed to a stage where they could generate future cash flows. As a result, material uncertainties exist that may cast significant doubt 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 while it believes that it may be able to raise the necessary financing in the future, market conditions may not be supportive of this.

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. Summary of 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 for the year ended September 30, 2019, amended, where 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, 2019.

### ***Application of IFRS 16***

Effective October 1, 2019, the Company adopted IFRS 16 which superseded IAS 17. The most significant effect of the new lease standard is the lessee's recognition of the initial present value of unavoidable future lease payments as right-of-use ("ROU") assets and lease liabilities on the statement of financial position, including those for most leases that would have previously been accounted for as operating leases under IAS 17. Both leases with durations of 12 months or less and leases for low-value assets may be exempted.

# Esrey Resources Ltd.

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

### 3. Summary of significant accounting policies (continued)

The Company has an office lease for its headquarters in Vancouver, British Columbia. In accordance with the modified retrospective approach, ROU assets of \$288,584 and lease liabilities of \$288,584 were recognized upon initial adoption of IFRS 16 on October 1, 2019. The application of IFRS 16 requires the Company to make judgments that affect the valuation of the lease liabilities and the valuation of ROU assets. These include determining contracts that are within the scope of IFRS 16, determining the contract term, and determining the interest rate used for the discounting of future cash flows.

The ROU assets are recognized initially at the value of lease liabilities at recognition with any prepaid payments, initial direct costs and dismantling costs less any lease incentives received. The lease term determined by the Company comprises the non-cancellable period of lease contracts, the period covered by an option to extend the leases, if the Company is reasonably certain to exercise that option, and the periods covered by an option to terminate the lease, if the Company is reasonably certain not to exercise that option. The amortization rate of ROU assets is based on the shorter of the useful life of the underlying asset or the lease term determined. The present value of the lease payment is determined using the discount rate representing the estimated weighted average incremental borrowing rate the Company could secure. There are no restrictions or covenants imposed by the Company's leases.

### 4. Subsidiaries and joint ventures

#### (a) Subsidiaries

Name of subsidiary	Principal activity	Place of incorporation and operation <sup>(1)</sup>	Proportion of ownership interest and voting power held at	
			December 31, 2019	September 30, 2019
LNG Energy (BC) Ltd. ("LNG BC")	Holding Company	BC	100%	100%
LNG Exploration Ltd. ("LNG Exploration")	Holding Company	BC	100%	100%
LNG Energy (PNG) Limited ("LNG PNG")	Holding Company	PNG	100%	100%
LNG Energy No. 2 Limited ("LNG No. 2")	Holding Company	PNG	100%	100%
Telemu No. 18 Limited ("Telemu")	Holding Company	PNG	84.25% <sup>(2)</sup>	84.25%
Basin Tishomingo Holdings Inc. ("BTH")	Holding Company	Delaware	100%	100%
EERL (BVI) Ltd. ("EERL BVI")	Holding Company	BVI	100%	100%
Evolution Petroleum Corporation ("EPC")	Holding Company	BVI	100%	100%
Esrey Zinc Holdings Ltd. ("EZH")	Holding Company	Barbados	100%	100%
Esrey Zinc Sales Ltd. ("EZX")	Holding Company	Barbados	100%	100%
Power Zinc Limited ("Power Zinc")	Holding Company	Malta	100%	100%
Esrey ZM Doel ("EZM")	Operating Company	Macedonia	100%	100%

(1) The following abbreviations have been used: British Columbia ("BC"), Papua New Guinea ("PNG"), British Virgin Islands ("BVI").

(2) The Company has a direct 68.5% ownership interest and holds an additional 15.75% through its interest in EERL Holdings (BVI) Ltd.

# Esrey Resources Ltd.

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

## 4. Subsidiaries and joint venture (continued)

### (b) EERL Holdings

As at December 31, 2019, the Company holds a 50% joint venture interest in EERL Holdings (BVI) Ltd. ("EERL Holdings"). The remaining 50% ownership is owned by a third party. EERL Holdings owns 31.5% of Telemu (Notes 6 and 8). As at December 31, 2019, the investment in EERL Holdings is \$111,727 (September 30, 2019 – \$111,727).

As at December 31, 2019, included in amounts receivable and in accounts payable and accrued liabilities are a US\$100,000 (December 31, 2019 - \$129,880; September 30, 2019 - \$132,430) receivable by EERL BVI from EERL Holdings, and a US\$135,500 (September 30, 2019 - US\$135,500) (December 31, 2019 - \$175,987; September 30, 2019 - \$179,443) payable by Telemu to EERL Holdings, respectively. Both the receivable and payable amounts are non-interest bearing and have no fixed date of repayment.

## 5. Pilot plant and equipment

	Pilot metal recovery plant	Office equipment and vehicles	Total
<b>Cost</b>			
Balance, September 30, 2018	\$ 3,048,163	\$ 12,439	\$ 3,060,602
Additions	30,152	-	30,152
Foreign exchange movement	63,228	286	63,514
Write-down of pilot plant and equipment	(3,141,543)	(12,725)	(3,154,268)
<b>Balance, September 30, 2019 and December 31, 2019</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Accumulated depreciation</b>			
Balance, September 30, 2018	\$ 696,281	\$ -	\$ 696,281
Depreciation	606,127	2,550	608,677
Foreign exchange movement	11,934	(6)	11,928
Write-down of pilot plant and equipment	(1,314,342)	(2,544)	(1,316,886)
<b>Balance, September 30, 2019 and December 31, 2019</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Carrying amount</b>			
At September 30, 2018	\$ 2,351,882	\$ 12,439	\$ 2,364,321
<b>At September 30, 2019 and December 31, 2019</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

On July 21, 2017, the Company completed the acquisition of 100% of the shares of Power Zinc, a majority-owned subsidiary of PRG Plc. ("PRG"), a private Malta company at arm's length to the Company and its directors and officers at the time of the transaction (the "Acquisition"). As part of the arrangement with PRG, the Company verbally agreed with PRG that subsequent to the acquisition of Power Zinc, PRG would be contracted to complete the construction of the pilot metal recovery plant already under construction at a total construction cost of US\$2,500,000 (\$3,120,000), which cost was recorded at September 30, 2017 (Note 16(a)).

During the quarter ended September 30, 2019, the Company's operations in Macedonia were put on hold until such time as financing becomes available, and accordingly, the Company wrote off the remaining undepreciated value of its pilot plant and equipment.

# Esrey Resources Ltd.

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

## 6. Loan payable

As at December 31, 2019, the Company's subsidiary, Telemu, has a loan payable to EERL Holdings of \$229,209 (September 30, 2019 - \$233,697). The loan is denominated in US dollars (December 31, 2019 and September 30, 2019 – US\$176,400), is non-interest bearing and has no fixed date of repayment.

## 7. Share capital

### (a) Authorized

Unlimited number of common shares with no par value.

### (b) Share purchase warrants

The following warrants are outstanding as at December 31, 2019 and September 30, 2019:

Number of Warrants	Average Exercise Price	Expiry Date
12,725,000	\$0.40	29-Mar-23
7,428,100	\$0.40	10-Apr-23
<b>20,153,100</b>	<b>\$0.40</b>	

An aggregate of 20,153,100 warrants were issued in connection with the March 29, 2018 and April 10, 2018 private placements of units. Each warrant gives the holder the right to acquire a further common share of the Company at a price of \$0.40 for a term of five years. The expiry of the Warrants may however be accelerated at the election of the Company in circumstances where, at any time following 4 months from the issuance of the Warrants, the closing price of the Company's shares on the TSX Venture Exchange is equal to or greater than \$0.75 for 20 consecutive trading days. In such case, the Company may give notice to the holders of the Warrants that the Warrants will expire 30 days following such notice.

### (c) Share options

The changes in share options during the three months ended December 31, 2019 and the year ended September 30, 2019 were as follows:

	December 31, 2019		September 30, 2019	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Balance, beginning of the year	3,172,000	\$0.12	5,043,500	\$0.12
Forfeited	-	-	(1,232,000)	\$0.13
Expired	-	-	(639,500)	\$0.12
<b>Balance, end of the period</b>	<b>3,172,000</b>	<b>\$0.12</b>	<b>3,172,000</b>	<b>\$0.13</b>

No stock options were granted, exercised, cancelled or forfeited during the three months ended December 31, 2019. During the year ended September 30, 2019, 1,197,000 and 35,000 stock options were forfeited at an exercise price of \$0.125 and \$0.15 respectively, and 639,500 stock options with an exercise price of \$0.12 expired unexercised.

# Esrey Resources Ltd.

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

## 7. Share capital (continued)

### (c) Share options (continued)

The following table summarizes information about outstanding and exercisable options at December 31, 2019.

Options outstanding	Options exercisable	Exercise Price	Expiry Date
1,507,000	1,507,000	\$0.095	April 2, 2020
1,060,000	1,060,000	\$0.125	August 9, 2022
555,000	555,000	\$0.15	October 5, 2022
50,000	50,000	\$0.24	March 1, 2023
<b>3,172,000</b>	<b>3,172,000</b>		

The weighted average exercise price of options exercisable at December 31, 2019 is \$0.12 per share (September 30, 2019 - \$0.12 per share). The weighted average remaining life of exercisable options is 1.50 years (September 30, 2019 – 1.75 years).

On April 2, 2020, a total of 1,507,000 options with an exercise price of \$0.095 expired unexercised.

### (d) Share appreciation rights plan

On June 21, 2018, the Company's shareholders approved a share appreciation rights plan ("SARs Plan") which authorizes the directors of the Company to grant share appreciation rights ("SARs") to directors, officers, employees and consultants of the Company, excluding consultants performing investor relations activities.

Pursuant to a SAR agreement (the "SAR Agreement") a SAR gives the holder the right to receive from the Company a cash payout equal to the difference between the fair market value of the Company's common shares at the time of exercise (determined as the closing price of such shares on the trading day prior to exercise) and the dollar amount set out in the SAR Agreement, which amount shall be not less than the Discounted Market Price (as defined under the policies of the TSX Venture Exchange) of the Company's shares at the time the SAR Agreement is entered into.

The material terms of the SAR Plan include:

- (i) the maximum term of a SAR is ten years from the date of the applicable SAR Agreement;
- (ii) the maximum number of SARs that may be issued under the Plan at any time is 1,000,000 subject to increase with disinterested shareholder approval; and
- (iii) the maximum number of SARs that can be granted to any one person in a 12 month period is a number equal to 1% of the then outstanding shares of the Company.

As at December 31, 2019 and September 30, 2019, no SARs have been granted by the Company.

# Esrey Resources Ltd.

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

## 8. Non-controlling interest

The Company has an 84.25% interest in Telemu, an oil and gas company incorporated in PNG. 15.75% of Telemu's equity (deficiency) and total comprehensive loss is allocated to the non-controlling interest using the indirect method. The non-controlling interest during the three months ended December 31, 2019 is comprised of the following amounts:

<b>Balance, September 30, 2018</b>	<b>\$</b>	<b>(307,780)</b>
Non-controlling interests' share of Telemu's loss		830
Foreign exchange translation		1,180
<b>Balance, September 30, 2019</b>	<b>\$</b>	<b>(305,770)</b>
Non-controlling interests' share of Telemu's income		-
Foreign exchange translation		(3,616)
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>(309,386)</b>

## 9. Loss per share from continuing operations

The weighted and diluted weighted average number of ordinary shares for the purposes of calculating loss and diluted loss per share, respectively, is 100,175,306 for the three months ended December 31, 2019 and 2018. There were no stock options or other securities that had a dilutive effect on the calculation of diluted weighted average number of ordinary shares during these periods.

As at December 31, 2019, the Company had 23,325,100 (September 30, 2018 – 23,235,100) potential ordinary shares that are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted loss per share.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options and share purchase warrants were based on quoted market prices for the periods during which the options and share purchase warrants were outstanding.

## 10. Supplemental cash flow disclosure

- (a) The following tables provide further information with regards to the changes in non-cash working capital disclosed in the statement of cash flows:

	<b>Three months ended December 31, 2019</b>	Three months ended December 31, 2018
Amounts receivable	<b>\$ 41,580</b>	\$ (29,237)
Prepaid expenses and deposits	<b>(11,813)</b>	46,208
Accounts payable and accrued liabilities	<b>8,386</b>	319,136
<b>Net changes in non-cash working capital items</b>	<b>\$ 38,153</b>	\$ 336,107

- (b) At December 31, 2019, the Company had cash of \$229,796 (September 30, 2019 – \$228,195) and cash equivalents of \$nil (September 30, 2019 – \$nil).
- (c) Other non-cash transactions that occurred during the three months ended December 31, 2019 and 2018 are disclosed in Note 7.

# Esrey Resources Ltd.

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

## 11. Related party transactions

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Balances and transactions between the Company and its joint venture are disclosed in Notes 4(b), 6 and 8. Details of the transactions between the Company and other related parties are disclosed below.

### (a) Transactions

During the three months ended December 31, 2019 and 2018, the Company's related parties consisted of (a) private companies owned by executive officers and directors and (b) a private company owned by a family member of one of the Company's directors and (c) an entity partly owned and having a cost-sharing agreement with the Company (see (a)(i)), as follows:

<b>Related party</b>	<b>Nature of transactions involved</b>	<b>Relationship to the Company</b>
Maluti Services Limited ("Maluti")	Management, G&A	CEO
Jazz Financial Ltd. ("Jazz")	Management	CFO until September 30, 2019
Pangea Management Corp.	Management	Family member of CEO
Sterling West Management Ltd. ("Sterling")	Management, G&A	See (i) below

The Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors and their relatives.

		<b>Three months ended December 31, 2019</b>	Three months ended December 31, 2018
Salaries and management fees	(i) \$	-	\$ 169,747
General and administrative expenses	(i)	-	27,687
Consulting fees		-	6,000

- (i) The Company is party to a shareholders' cost-sharing agreement with certain other public and private companies (the "Other Companies") pursuant to which the Company and the Other Companies are equal shareholders in Sterling and, through Sterling, share (on a cost recovery basis) office furnishings, equipment and communications facilities and the employment of various administrative, office and management personnel in Vancouver, B.C., Canada. Costs of the shared office facilities and the shared employees are recovered from the Company in proportion to the time spent by the shared employees on matters pertaining to the Company. During the three months ended December 31, 2019, the Company's share of management and overhead costs was \$nil (three months ended December 31, 2019 - \$58,590), recorded as management fees and general and administrative expenses in the unaudited condensed consolidated interim statements of loss and comprehensive loss.

The Company accounts for Sterling using the equity method. As at December 31, 2019, the amount owing to Sterling was \$185,915 (September 30, 2019 - \$185,915). On or about February 27, 2020, Sterling assigned its \$180,915 receivable to Armex Mining Corp., a private company controlled by the Company's current CEO (Note 17(b)).

# Esrey Resources Ltd.

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

## 11. Related party transactions (continued)

### (b) Compensation of key management personnel

The remuneration of directors and other key members of management personnel during the three months ended December 31, 2019 and 2018 were as follows:

	Note	Three months ended December 31, 2019	Three months ended December 31, 2018
Remuneration		\$ -	\$ 138,843
Directors' fees		4,000	4,000
Share-based payments	(i)	-	1,100
		<b>\$ 4,000</b>	<b>\$ 143,943</b>

(i) Share-based payments are the fair value of options granted to key management personnel.

The services of the Company's CEO and CFO were provided pursuant to management services contracts with Maluti and Jazz, respectively. The Company's CFO resigned on September 30, 2019 and the Company's CEO resigned on February 27, 2020. Termination payments were not paid with these resignations.

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three months ended December 31, 2019 and 2018. Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at December 31, 2019 included directors' fees of \$16,000 (September 30, 2019 – \$12,000), consulting fees of \$12,000 (September 30, 2019 – \$12,000), and remuneration of \$557,506 to other key management personnel (September 30, 2019 – \$557,506). On or about February 27, 2020, \$581,506 of the amounts due to related parties noted above were assigned to Armex Mining Corp., a private company controlled by the current CEO of the Company (Note 17(b)).

## 12. Segmented information

### Geographic Information

The Company's assets by geographic areas as at December 31, 2019 and September 30, 2019 are as follows:

	December 31, 2019			
	Papua New Guinea			Total
	Guinea	Macedonia	Canada	Total
Cash and cash equivalents	\$ 205,506	\$ 6,984	\$ 17,304	\$ 229,794
Other current assets	13,305	9,570	147,929	170,804
Right-of-use asset	-	-	270,548	270,548
Long-term deposit	-	-	25,973	25,973
Investment in joint venture	-	-	111,727	111,727
	<b>\$ 218,811</b>	<b>\$ 16,554</b>	<b>\$ 573,481</b>	<b>\$ 808,846</b>



# Esrey Resources Ltd.

Notes to the consolidated financial statements  
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## 12. Segmented information (continued)

September 30, 2019				
	Papua New Guinea			Total
	Guinea	Macedonia	Canada	
Cash and cash equivalents	\$ 209,894	\$ 6,984	\$ 11,317	\$ 228,195
Other current assets	13,590	74,370	146,365	234,325
Long-term deposit	-	-	25,973	25,973
Investment in joint ventures	-	-	111,727	111,727
	\$ 223,484	\$ 81,354	\$ 295,382	\$ 600,220

The Company's expenses and income (loss) by geographic area for the three months ended December 31, 2019 and 2018 are as follows:

Three months ended December 31, 2019						
	Papua New Guinea					Total
	Guinea	United States	Macedonia	Barbados	Canada	
<b>Net income (loss)</b>	<b>\$ 100</b>	<b>\$ 3,731</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (58,209)</b>	<b>\$ (54,378)</b>
<b>Attributable to</b>						
Non-controlling interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity shareholders of the Company	100	3,731	-	-	(58,209)	(54,378)
	<b>\$ 100</b>	<b>\$ 3,731</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (58,209)</b>	<b>\$ (54,378)</b>

Three months ended December 31, 2018							
	Papua New Guinea		United States	Macedonia	Barbados	Canada	Total
Net income (loss)	\$ 8,124	\$ 12,235	\$ (666,767)	\$ (150,406)	\$ (53,548)	\$ (850,362)	
<b>Attributable to</b>							
Non-controlling interest	\$ 3,038	\$ -	\$ -	\$ -	\$ -	\$ 3,038	
Equity shareholders of the Company	5,086	12,235	(666,767)	(150,406)	(53,548)	(853,400)	
	<b>\$ 8,124</b>	<b>\$ 12,235</b>	<b>\$ (666,767)</b>	<b>\$ (150,406)</b>	<b>\$ (53,548)</b>	<b>\$ (850,362)</b>	

## 13. 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 develop its zinc project 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, enter into joint venture arrangements on its zinc projects, 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 Resources Ltd.

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

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## 14. 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 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 loan payable on the statements 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 and cash equivalents consist of cash on hand, deposits in major banks that are considered to be creditworthy, and highly liquid investments with an original maturity date of less than one year. Amounts receivable are comprised primarily of amounts due from a related party (Note 4(b)) and GST receivables from the government of Canada. The carrying values of the financial assets represent the maximum credit exposure.

#### (ii) *Liquidity and funding risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and cash equivalents, which are invested in business accounts and are available on demand.

Funding risk is the risk that the Company may not be able to raise 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 financing (Note 2(c)).

# Esrey Resources Ltd.

Notes to the consolidated financial statements  
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## 14. Financial instruments (continued)

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

#### (ii) Liquidity and funding risk (continued)

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 tables summarize the Company's significant remaining contractual maturities for financial liabilities at December 31, 2019 and September 30, 2019.

December 31, 2019			
	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 1,802,430	\$ -	\$ 1,802,430
Loan payable (Note 6)	229,209	-	229,209
Lease commitments (Note 15)	114,419	479,302	593,721
<b>Total</b>	<b>\$ 2,146,058</b>	<b>\$ 479,302</b>	<b>\$ 2,625,360</b>

  

September 30, 2019			
	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 1,831,977	\$ -	\$ 1,831,977
Loan payable (Note 6)	233,679	-	233,679
Lease commitments (Note 15)	129,727	479,302	609,029
<b>Total</b>	<b>\$ 2,195,383</b>	<b>\$ 479,302</b>	<b>\$ 2,674,685</b>

#### (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.

##### (1) 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. The amounts due to related parties and the loans payable are non-interest bearing.

##### (2) Foreign currency risk

Some of the Company's cash, expenditures, loans and accounts payable are denominated in the US dollar, Papua New Guinea kina, Macedonian denar 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, Macedonian denar and European Euro. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

# Esrey Resources Ltd.

Notes to the consolidated financial statements  
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## 15. Commitment

On August 20, 2018, the Company entered into a five-year lease agreement for its head office premises in Vancouver, Canada, effective October 1, 2018. The annual minimum payments under this lease are as follows:

<b>Years ending September 30,</b>	<b>\$</b>
2020 (from Jan 1, 2020)	<b>114,419</b>
2021	<b>156,906</b>
2022	<b>161,198</b>
2023	<b>161,198</b>
	<b>593,721</b>

In connection with this lease, the Company has a \$25,973 deposit with the landlord. This amount has been recorded as a "deposit" on the Company's unaudited condensed consolidated interim statement of financial position as at December 31, 2019.

## 16. Contingencies

Due to the nature of the Company's operations, various legal, tax, environmental and regulatory matters are outstanding from time to time. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

- (a) Despite the Company's payment in full to PRG under a previous verbal agreement (Note 5), PRG has claimed that it had not properly transferred all the subject assets to the Company and not all necessary in-country legal agreements in Macedonia were properly completed in the transaction with PRG (the "Agreements"). The Company had been working to finalize these Agreements with PRG. If finalized, these Agreements would also formalize the verbal agreement with PRG for PRG to complete the construction of the pilot metal recovery plant for the Company at a total construction cost of US\$2,500,000 (\$3,120,000). Notwithstanding that the Company has written off all of its pilot metal recovery plant and equipment in Macedonia during the year ended September 30, 2019, the Company believes that it retains title to all assets purchased from PRG on July 21, 2017 (including the pilot plant construction in progress at the time) and that it retains title to all subsequent work performed by PRG to construct the pilot plant for the Company in 2017 and 2018.
- (b) During the year ended September 30, 2019, PRG filed a claim against Esrey ZM, the Company's Macedonian subsidiary, for 824,836 denars (\$19,580) plus interest and procedural costs for unpaid invoices which Esrey ZM had been disputing. Esrey ZM has formally filed an objection to the claim and an appeal to the local court. The Company has recorded this amount in accrued liabilities as at December 31, 2019 and September 30, 2019.
- (c) During the year ended September 30, 2018, the Company incurred costs for investigating various industrial sites in Macedonia for a suitable location for the Company's then-proposed full-scale hydro-metallurgical zinc processing plant. The costs included 250,000 euros (\$382,135) which the Company paid as a non-refundable deposit for the purchase of a certain parcel of land in Macedonia. The purchase transaction was not successfully consummated as a result of circumstances within the control of the seller. As a result, the Company believes that it has a claim for the refund of the deposit and is pursuing the recovery of the deposit through the legal system in Macedonia. The outcome of this matter is currently uncertain.

# Esrey Resources Ltd.

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Notes to the consolidated financial statements  
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## 16. Contingencies (continued)

- (d) The Company has a quantity of zinc-containing material at its pilot plant which material was used in the development and testing of the zinc production methodology at the pilot plant. The amount of material at the pilot plant is currently undeterminable and the Company has no immediate plans to dispose the material. The costs to dispose the material is also currently undeterminable.

While the outcomes of these matters are uncertain, based upon the information currently available, the Company does not believe that these matters in aggregate will have a material adverse effect on its financial statements. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in its financial statements in the period in which such changes occur.

## 17. Subsequent events

- a) On February 27, 2020, David Cohen, the Company's then President, Chief Executive Officer ("CEO"), director and interim Chief Financial Officer ("CFO") resigned from the Company, along with then directors Paul Larkin and Pablo Marcet. They were replaced by Allen D. Leschert, who assumed the role of CEO and director, Malcolm Fraser, who assumed the role of interim CFO and director, and W. Joseph Yelder and David Pasko, who joined as the Company's new independent directors.
- b) On or about February 27, 2020, the Company's former CEO, CFO and directors assigned their respective management fees and directors' fees receivable (Note 11(b)) aggregating \$581,506 to Armex Mining Corp., a company under the control of Allen D. Leschert, the current CEO and director of the Company. On or about the same date, Sterling West Management Ltd. also assigned its management fees receivable of \$180,915 (Note 11(a)) to Armex.
- c) On April 2, 2020, a total of 1,507,000 options with an exercise price of \$0.095 expired unexercised.