



**CONSOLIDATED FINANCIAL STATEMENTS**

**For the Three and Nine Months Ended June 30, 2021 and 2020**

**(in Canadian dollars)**

# Esrey Resources Ltd.

June 30, 2021

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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	June 30, 2021	September 30, 2020
<b>ASSETS</b>			
Current assets			
Cash		\$ 193,291	\$ 206,627
Amounts receivable	4(b)	128,923	135,830
		<b>322,214</b>	<b>342,457</b>
Non-current asset			
Investment in joint venture	4(b)	111,727	111,727
		<b>\$ 433,941</b>	<b>\$ 454,184</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities	4(b), 10	\$ 1,833,717	\$ 1,818,712
Loan payable	5	218,631	235,869
		<b>2,052,348</b>	<b>2,054,581</b>
<b>Equity</b>			
Share capital	6	117,291,708	117,291,708
Share purchase warrants	6(c)	1,960,356	1,960,356
Contributed surplus		13,555,568	13,555,568
Accumulated other comprehensive income		252,980	240,803
Non-controlling interest	7	(325,655)	(313,025)
Deficit		<b>(134,353,364)</b>	<b>(134,335,807)</b>
		<b>(1,618,407)</b>	<b>(1,600,397)</b>
		<b>\$ 433,941</b>	<b>\$ 454,184</b>
Going concern (Note 2(c))			
Contingencies (Note 14)			

Approved and authorized for issue by the Board on August 27, 2021.

(Signed) "Allen Leschert"  
Director

(Signed) "W. Joseph Yelder"  
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, June 30,		Nine months ended, June 30,	
		2021	2020	2021	2020
<b>Expenses:</b>					
General and administrative expenses		\$ 10,652	\$ 15,255	\$ 16,729	\$ 42,787
Occupancy expenses		-	15,266	-	45,797
Amortization of right-of-use asset		-	18,037	-	54,110
Salaries and management fees		-	-	3,000	8,000
Legal, audit and accounting fees		936	-	10,936	6,093
Interest expense on lease liabilities		-	7,637	-	24,235
		<b>(11,588)</b>	<b>(56,195)</b>	<b>(30,665)</b>	<b>(181,022)</b>
<b>Other income (expenses):</b>					
Other income		5,052	2,609	11,685	17,318
Loss from investment in joint venture		-	-	-	-
Foreign exchange gain (loss)		643	(5,597)	1,423	(5,784)
		<b>5,695</b>	<b>(2,988)</b>	<b>13,108</b>	<b>11,534</b>
Loss before income taxes		<b>(5,893)</b>	<b>(59,183)</b>	<b>(17,557)</b>	<b>(169,488)</b>
Income tax expense (recovery)		-	-	-	-
<b>Net loss for the period</b>		<b>\$ (5,893)</b>	<b>\$ (59,183)</b>	<b>\$ (17,557)</b>	<b>\$ (169,488)</b>
Attributable to:					
Non-controlling interest	7	-	-	-	-
Equity shareholders of the Company		<b>(5,893)</b>	<b>(59,183)</b>	<b>(17,557)</b>	<b>(169,488)</b>
<b>Net loss for the period</b>		<b>\$ (5,893)</b>	<b>\$ (59,183)</b>	<b>\$ (17,557)</b>	<b>\$ (169,488)</b>
<b>Other comprehensive income (loss)</b>					
Foreign currency translation attributed to non-controlling interest		2,235	(7,930)	12,630	1,653
Foreign currency translation for equity shareholders of the Company		(262)	7,954	(453)	(2,086)
		<b>\$ (3,920)</b>	<b>\$ (59,159)</b>	<b>\$ (5,380)</b>	<b>\$ (169,921)</b>
<b>Diluted weighted average number of shares outstanding</b>	8	<b>100,175,306</b>	100,175,306	<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>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>

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

## Esrey Resources Ltd.

Unaudited condensed consolidated interim statements of changes in equity

(Expressed in Canadian dollars)

	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive (loss) income	Non-controlling interest	Deficit	Total equity
<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 period	-	-	-	-	-	-	(169,488)	(169,488)
Foreign currency translation	-	-	-	-	(2,086)	1,653	-	(433)
<b>Balance, June 30, 2020</b>	<b>100,175,306</b>	<b>\$ 117,291,708</b>	<b>\$ 1,960,356</b>	<b>\$ 13,555,568</b>	<b>\$ 231,211</b>	<b>\$ (304,117)</b>	<b>\$ (134,370,101)</b>	<b>\$ (1,635,375)</b>
Net loss for the period	-	-	-	-	-	(4,348)	34,294	29,946
Foreign currency translation	-	-	-	-	9,592	(4,560)	-	5,032
<b>Balance, September 30, 2020</b>	<b>100,175,306</b>	<b>\$ 117,291,708</b>	<b>\$ 1,960,356</b>	<b>\$ 13,555,568</b>	<b>\$ 240,803</b>	<b>\$ (313,025)</b>	<b>\$ (134,335,807)</b>	<b>\$ (1,600,397)</b>
Net loss for the period	-	-	-	-	-	-	(17,557)	(17,557)
Foreign currency translation	-	-	-	-	12,177	(12,630)	-	(453)
<b>Balance, June 30, 2021</b>	<b>100,175,306</b>	<b>\$ 117,291,708</b>	<b>\$ 1,960,356</b>	<b>\$ 13,555,568</b>	<b>\$ 252,980</b>	<b>\$ (325,655)</b>	<b>\$ (134,353,364)</b>	<b>\$ (1,618,407)</b>

# Esrey Resources Ltd.

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

	Note	Nine months ended June 30, 2021	Nine months ended June 30, 2020
<b>Operating activities</b>			
Net loss for the period		\$ (17,557)	\$ (169,488)
Adjustments to net loss for non-cash items			
Amortization of right-of-use asset		-	54,110
Interest expense on lease liabilities		-	24,235
Foreign exchange loss (gain)		(1,423)	5,784
Net changes in non-cash working capital items	9	(10,071)	79,580
		(29,051)	(5,779)
Foreign exchange effect on cash and cash equivalents		15,715	2,005
Net decrease in cash		(13,336)	(3,774)
Cash, beginning of period		206,627	228,195
<b>Cash, end of the period</b>		<b>\$ 193,291</b>	<b>\$ 224,421</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.

Prior to September 30, 2019, the Company operated 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 ceased in the fourth quarter of fiscal 2019. The Company expects that the hydrometallurgical process can also be applied in active mining operations and 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, 2020.

The significant accounting policies applied in these financial statements are based on IFRS and outstanding policies as of August 27, 2021, 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, 2020.

### (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.

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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 of \$1,730,134 as at June 30, 2021 and will require significant funding to eliminate this working capital deficit and to seek new business opportunities in the mineral resource sector. The Company has no ability to raise financing as it is currently the subject of cease trade orders due to not having filed certain quarterly and annual financial statements and MD&A by the required regulatory filing deadlines. As these reports have now been filed, the Company has applied for revocation of the cease trade orders and will actively seek to raise financing once the cease trade orders are revoked.

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, uncertainties exist that may cast significant doubt with respect to the Company's ability to continue as a going concern.

In March 2020, the World Health Organization declared COVID-19 a global pandemic. The pandemic and any related public health developments have adversely affected workforces, economies, and financial markets nationally and internationally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's ability to raise funds.

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. Accordingly, 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 consolidated 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, 2020, amended, where applicable, by the adoption of the new amended accounting standards, if any, as 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, 2020.

# Esrey Resources Ltd.

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

## 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, 2020	September 30, 2020
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%
Power Zinc Limited ("Power Zinc")	Holding Company	Kosovo	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.

### (b) EERL Holdings

As at June 30, 2021, 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, 2021, the investment in EERL Holdings is \$111,727 (September 30, 2020 – \$111,727).

As of June 30, 2021, included in amounts receivable and in accounts payable and accrued liabilities are a US\$100,000 (June 30, 2021 - \$123,940; September 30, 2020 - \$133,390) receivable by EERL BVI from EERL Holdings, and a US\$135,500 (June 30, 2021 - \$167,939; September 30, 2020 - \$180,743) payable by Telemu to EERL Holdings. Both the receivable and payable amounts are non-interest bearing and have no fixed date of repayment.

## 5. Loan payable

As at June 30, 2021, the Company's subsidiary, Telemu, has a loan payable to EERL Holdings of \$218,630 (September 30, 2020 - \$235,869). The loan is denominated in US dollars (June 30, 2021 and September 30, 2020 – US\$176,400), is non-interest bearing and has no fixed date of repayment.

# Esrey Resources Ltd.

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

## 6. Share capital

### (a) Authorized

Unlimited number of common shares with no par value.

### (b) Issued

As at June 30, 2021 and September 30, 2020, the Company had 100,175,306 shares issued and outstanding.

### (c) Share purchase warrants

The following warrants are outstanding as at June 30, 2021 and at September 30, 2020:

	Number of Warrants	Exercise Price	Expiry Date
Private Placement warrants - March 29, 2018	12,725,000	\$0.40	March 29, 2023
Private Placement warrants - April 10, 2018	7,270,000	\$0.40	April 10, 2023
Warrants issued as finders' fee	158,100	\$0.40	April 10, 2023
<b>Balance, June 30, 2021 and September 30, 2020</b>	<b>20,153,100</b>	<b>\$0.40</b>	

The expiry of the warrants may be accelerated at the election of the Company in circumstances where 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.

### (d) Share options

The changes in share options during the three and nine months ended June 30, 2021 and the year ended September 30, 2020 were as follows:

	June 30, 2021		September 30, 2020	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Balance, beginning of the year	-	-	3,172,000	\$0.12
Forfeited	-	-	(1,665,000)	\$0.14
Expired	-	-	(1,507,000)	\$0.095
<b>Balance, end of the period</b>	<b>-</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>

During the year ended September 30, 2020, 1,507,000 options with an average exercise price of \$0.095 expired unexercised and the remaining 1,665,000 stock options were forfeited at an average exercise price of \$0.14, as a result of a change in directors and management of the Company on February 27, 2020 (Note 10(a)) and the termination of employment or relationships of then-option holders to the Company.

There were no options outstanding as at June 30, 2021 and September 30, 2020.

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

## 6. Share capital (continued)

### (e) Share appreciation rights plan ("SARs Plan")

On June 21, 2018, the Company's shareholders approved a 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 June 30, 2021 and September 30, 2020, no SARs have been granted by the Company.

## 7. 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 March 31, 2021, is comprised of the following amounts:

<b>Balance, September 30, 2019</b>	<b>\$</b>	<b>(305,770)</b>
Non-controlling interests' share of Telemu's income		(4,348)
Foreign exchange translation		(2,907)
<b>Balance, September 30, 2020</b>		<b>(313,025)</b>
Foreign exchange translation		(12,630)
<b>Balance, June 30, 2021</b>	<b>\$</b>	<b>(325,655)</b>

## 8. 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 is 100,175,306 for the three and nine months ended June 30, 2021 and 2020. 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 June 30, 2021, the Company had 20,153,100 (September 30, 2020 – 20,153,100) 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.

# Esrey Resources Ltd.

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

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.

## 9. 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:

	Nine months ended June 30, 2021	Nine months ended June 30, 2020
Amounts receivable	\$ (6,907)	\$ 11,775
Prepaid expenses and deposits	-	(3,938)
Accounts payable and accrued liabilities	(3,164)	71,743
<b>Net changes in non-cash working capital items</b>	<b>\$ (10,071)</b>	<b>\$ 79,580</b>

- (b) There were no other non-cash transactions that occurred during the three and nine months ended June 30, 2021 and the year ended September 30, 2020.

## 10. 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 and 5. Details of the transactions between the Company and other related parties are disclosed below.

During the three months ended June 30, 2021, the Company's related parties consisted of a private company controlled by the Company's chief executive officer ("CEO") as follows:

Related party	Nature of transactions involved	Relationship to the Company
Armex Mining Corp. ("Armex")	Accounts payable	CEO since February 27, 2020

### (a) Transactions and accounts payable

During the three and nine months ended June 30, 2021 and 2020, the Company did not have any related party transactions, other than loans or advances from directors, or companies owned by key management and directors as disclosed below.

On February 27, 2020, \$592,997 due to former related parties of the Company (including former directors and officers) were assigned to Armex, a private company controlled by Allen Leschert, who assumed the role as the Company's CEO on that date. On February 27, 2020, certain amounts payable to unrelated parties were also assigned to Armex.

During the period from February 27, 2020 to June 30, 2021, Armex advanced funds to the Company primarily for general and administrative expenses. During the nine months ended June 30, 2021, Armex advanced \$92,364 to the Company to settle certain outstanding accounts payable. At June

# Esrey Resources Ltd.

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

30, 2021, a balance of \$1,037,127 (September 30, 2020 – \$944,763) was owing to Armex and has been included in accounts payable.

During the three months ended December 31, 2020, David Pasko, a director of the Company, advanced \$1,200 to the Company primarily for general and administrative expenses. This amount has been included in accounts payable at June 30, 2021.

## 10. Related party transactions (continued)

### (b) Compensation of key management personnel

There was no remuneration of directors and other key members of management personnel during the three and nine months ended June 30, 2021 and 2020. Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three and nine months ended June 30, 2021 and 2020.

## 11. Segmented information

### Geographic Information

The Company's assets by geographic areas as at June 30, 2021 and September 30, 2020 are as follows:

	June 30, 2021		
	Papua New Guinea		Total
	Guinea	Canada	Total
Cash and cash equivalents	\$ 190,511	\$ 2,780	\$ 193,291
Other current assets	-	128,923	128,923
Investment in joint venture	-	111,727	111,727
	<b>\$ 190,511</b>	<b>\$ 243,430</b>	<b>\$ 433,941</b>

  

	September 30, 2020		
	Papua New Guinea		Total
	Guinea	Canada	Total
Cash and cash equivalents	\$ 206,226	\$ 401	\$ 206,627
Other current assets	459	135,371	135,830
Investment in joint ventures	-	111,727	111,727
	<b>\$ 206,685</b>	<b>\$ 247,499</b>	<b>\$ 454,184</b>

The Company's expenses and income (loss) by geographic area for the three and nine months ended June 30, 2021 and 2020 are as follows:

# Esrey Resources Ltd.

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

	Papua New			
	Guinea	United States	Canada	Total
<b>Net income (loss) - all attributable to equity shareholders of the Company:</b>				
<b>Three months ended June 30, 2021</b>	\$ 948	\$ 5,022	\$ (11,863)	\$ (5,893)
<b>Nine months ended June 30, 2021</b>	\$ 1,524	\$ 11,587	\$ (30,668)	\$ (17,557)
Three months ended June 30, 2020	\$ 218	\$ 2,583	\$ (61,984)	\$ (59,183)
Nine months ended June 30, 2020	\$ (4,771)	\$ 14,704	\$ (179,421)	\$ (169,488)

## 12. 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 acquire and develop new projects 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, or seek loan financing if available on favorable terms.

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.

## 13. Financial instruments

The Company's financial instruments consist of cash, amounts receivable, accounts payable and loan 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, 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

# Esrey Resources Ltd.

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

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

*(b) Financial risk management*

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

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



# Esrey Resources Ltd.

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

## 13. Financial instruments (continued)

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

#### (i) Credit risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk arises principally from the Company's cash and amounts receivable. Cash consists 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)).

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 current liabilities at June 30, 2021 and September 30, 2020.

June 30, 2021			
	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 1,833,717	\$ -	\$ 1,833,717
Loan payable (Note 5)	218,631	-	218,631
<b>Total</b>	<b>\$ 2,052,348</b>	<b>\$ -</b>	<b>\$ 2,052,348</b>

  

September 30, 2020			
	Less than 1 year	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 1,818,712	\$ -	\$ 1,818,712
Loan payable (Note 5)	235,869	-	235,869
<b>Total</b>	<b>\$ 2,054,581</b>	<b>\$ -</b>	<b>\$ 2,054,581</b>

# Esrey Resources Ltd.

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

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## 13. 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.

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

## 14. 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) 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.
- (b) During the year ended September 30, 2019, PRG (a third-party Macedonian company) filed a claim against Esrey ZM, the Company's Macedonian subsidiary, for 824,836 denars (\$19,423) 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 June 30, 2021 and September 30, 2020.

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.