



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the Three and Six Months Ended March 31, 2015 and 2014**

**(in Canadian dollars)  
(Unaudited)**

## **NOTICE TO READER**

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

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

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

# Esrey Energy Ltd.

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

	Note	March 31, 2015	September 30, 2014
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 9,682,763	\$ 8,099,814
Amounts receivable		180,672	50,279
Prepaid expenses and other deposits		402,435	407,934
		<b>10,265,870</b>	<b>8,558,027</b>
Non-current assets			
Exploration and evaluation assets	4	4,077,366	6,288,048
Property, plant and equipment	5	49,483	56,754
Investment in associate and joint ventures	6	124,959	127,347
Deferred income tax		35,128	-
		<b>\$ 14,552,806</b>	<b>\$ 15,030,176</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 2,812,615	\$ 307,337
Decommissioning obligations	7	-	55,876
Loans payable	8	223,192	3,853,830
		<b>3,035,807</b>	<b>4,217,043</b>
Non-current liabilities			
Obligation to fund work programs	8(a)	2,252,246	-
		<b>5,288,053</b>	<b>4,217,043</b>
<b>Equity</b>			
Share capital	9	110,392,414	110,392,414
Contributed surplus	9(d)	12,875,197	12,861,607
Accumulated other comprehensive income		10,488,734	7,451,804
Non-controlling interest	10	660,047	612,023
Deficit		(125,151,639)	(120,504,715)
		<b>9,264,753</b>	<b>10,813,133</b>
		<b>\$ 14,552,806</b>	<b>\$ 15,030,176</b>

Approved and authorized for issue by the Board on May 14, 2015.

(Signed) "Paul Larkin"  
Director

(Signed) "David Cohen"  
Director

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

# Esrey Energy Ltd.

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

	Note	Three months ended March 31,		Six months ended March 31,	
		2015	2014	2015	2014
<b>Expenses:</b>					
Depreciation	5	\$ 3,691	\$ 24,210	\$ 7,394	\$ 28,536
Loss on disposal of fixed assets		-	826	-	37,269
General and administrative expenses		581,974	83,337	700,717	335,449
Professional fees		277,531	317,523	540,433	678,976
Share based payments	9(d)	1,607	75,192	13,590	76,870
Travel and business development		6,969	58,290	21,762	102,874
Settlement of drilling obligations		-	1,042,287	-	1,042,287
Impairment of exploration and evaluation assets	4	119,919	4,769	2,742,781	175,723
		<b>(991,691)</b>	<b>(1,606,434)</b>	<b>(4,026,677)</b>	<b>(2,477,984)</b>
<b>Other income (expenses):</b>					
Accretion expense	7	(25)	(564)	(562)	(874)
Interest expense	8(a)	(69,026)	(113,010)	(134,184)	(214,783)
Interest income		1,779	2,942	3,740	7,986
Share of loss of joint ventures		(474)	-	(2,388)	-
Other income		121,521	2,212	122,178	3,067
Foreign exchange gain		621,448	254,738	915,679	369,654
		<b>675,223</b>	<b>146,318</b>	<b>904,463</b>	<b>165,050</b>
Loss for the period before tax		<b>(316,468)</b>	<b>(1,460,116)</b>	<b>(3,122,214)</b>	<b>(2,312,934)</b>
Income tax recovery (expense)	11	112,667	(6,690)	1,852,781	(16,283)
Loss from continuing operations		<b>(203,801)</b>	<b>(1,466,806)</b>	<b>(1,269,433)</b>	<b>(2,329,217)</b>
Loss from discontinued operations	12	<b>(3,274,096)</b>	-	<b>(3,361,954)</b>	-
<b>Net loss for the period</b>		<b>\$ (3,477,897)</b>	<b>\$ (1,466,806)</b>	<b>\$ (4,631,387)</b>	<b>\$ (2,329,217)</b>
Attributable to:					
Non-controlling interest	10	8,427	(12,038)	15,537	(29,465)
Equity shareholders of the Company		<b>(3,486,324)</b>	<b>(1,454,768)</b>	<b>(4,646,924)</b>	<b>(2,299,752)</b>
		<b>\$ (3,477,897)</b>	<b>\$ (1,466,806)</b>	<b>\$ (4,631,387)</b>	<b>\$ (2,329,217)</b>
<b>Other comprehensive income (loss)</b>					
Foreign currency translation gain (loss) attributed to non-controlling interest	10	31,180	(36,364)	32,487	582
Foreign currency translation gain (loss) for equity shareholders of the Company		3,131,235	(365,007)	3,036,930	653,797
		<b>\$ (315,482)</b>	<b>\$ (1,868,177)</b>	<b>\$ (1,561,970)</b>	<b>\$ (1,674,838)</b>
<b>Basic and diluted loss per share from</b>					
Continuing operations	13	\$ (0.01)	\$ (0.05)	\$ (0.03)	\$ (0.08)
Discontinued operations	13	\$ (0.08)	\$ 0.00	\$ (0.08)	\$ 0.00

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

# Esrey Energy Ltd.

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

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Non- controlling interest	Deficit	Total equity
<b>Balance, September 30, 2013</b>	<b>28,867,670</b>	<b>\$ 106,790,751</b>	<b>\$ 12,729,232</b>	<b>\$ 6,560,305</b>	<b>\$ 572,530</b>	<b>\$ (112,750,827)</b>	<b>\$ 13,901,991</b>
Share based payments	-	-	77,434	-	-	-	77,434
Share consolidation payments (Note 9(b))	(48,295)	(9,658)	-	-	-	-	(9,658)
Net loss for the period	-	-	-	-	(29,465)	(2,299,752)	(2,329,217)
Foreign currency translation	-	-	-	653,797	582	-	654,379
<b>Balance, March 31, 2014</b>	<b>28,819,375</b>	<b>106,781,093</b>	<b>12,806,666</b>	<b>7,214,102</b>	<b>543,647</b>	<b>(115,050,579)</b>	<b>12,294,929</b>
Shares issued on the settlement of debt (Note 9(c))	10,943,396	3,611,321	-	-	-	-	3,611,321
Share based payments	-	-	54,941	-	-	-	54,941
Net loss for the period	-	-	-	-	(1,271)	(5,454,136)	(5,455,407)
Foreign currency translation	-	-	-	237,702	69,647	-	307,349
<b>Balance, September 30, 2014</b>	<b>39,762,771</b>	<b>110,392,414</b>	<b>12,861,607</b>	<b>7,451,804</b>	<b>612,023</b>	<b>(120,504,715)</b>	<b>10,813,133</b>
Share based payments	-	-	13,590	-	-	-	13,590
Net income (loss) for the period	-	-	-	-	15,537	(4,646,924)	(4,631,387)
Foreign currency translation	-	-	-	3,036,930	32,487	-	3,069,417
<b>Balance, March 31, 2015</b>	<b>39,762,771</b>	<b>\$ 110,392,414</b>	<b>\$ 12,875,197</b>	<b>\$ 10,488,734</b>	<b>\$ 660,047</b>	<b>\$ (125,151,639)</b>	<b>\$ 9,264,753</b>

See the accompanying notes to the 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 March 31,		Six months ended March 31,	
		2015	2014	2015	2014
<b>Operating activities</b>					
Net loss before income taxes		\$ (316,468)	\$ (1,460,116)	\$ (3,122,214)	\$ (2,312,934)
Adjustments to net loss for non-cash items					
Depreciation	5	3,691	24,210	7,394	28,536
Loss on disposal of fixed assets	5	-	899	-	37,342
Share-based payments	9(d)	1,607	75,192	13,590	76,870
Impairment of exploration and evaluation assets	4	119,919	4,769	2,742,781	175,723
Accretion expense	7	25	564	562	874
Interest expense	8(a)	69,026	113,010	134,184	214,783
Interest income		(1,779)	(2,942)	(3,740)	(7,986)
Write-down of advances		-	(26,400)	-	3,549
Share of loss of joint ventures		474	-	2,388	-
Foreign exchange gain		(621,448)	(181,712)	(915,679)	(296,628)
Net changes in non-cash working capital items	14	363,172	(123,578)	415,392	(368,702)
		(381,781)	(1,576,104)	(725,342)	(2,448,573)
Adjustments to net loss for cash items					
Interest income received		824	2,308	2,114	7,735
Interest expense paid		(20)	(15)	(223)	(556)
Realized foreign exchange gain (loss)		15,632	(4,272)	13,745	(6,139)
Taxes received (paid)	11	78,673	(6,942)	1,818,787	(23,412)
		(286,672)	(1,585,025)	1,109,081	(2,470,945)
<b>Financing activities</b>					
Share consolidation payments		-	-	-	(9,658)
		-	-	-	(9,658)
<b>Investing activities:</b>					
Advances to associate and joint ventures	6, 12	(123,356)	(170,760)	(211,214)	(303,759)
Exploration and evaluation expenditures	4	(49,427)	(108,969)	(177,199)	(225,862)
Property, plant and equipment additions	5	-	(11,354)	-	(13,882)
Proceeds from sale of property, plant and equipment		-	-	-	29,667
Changes in restricted cash balances		-	1,682,290	-	1,680,065
Net changes in non-cash working capital items	14	-	7,457	-	336,435
		(172,783)	1,398,664	(388,413)	1,502,664
Foreign exchange effect on cash and cash equivalents		562,535	164,842	862,281	333,115
Net increase in cash and cash equivalents		103,080	(21,519)	1,582,949	(644,824)
Cash and cash equivalents, beginning of period		9,579,683	6,416,070	8,099,814	7,039,375
<b>Cash and cash equivalents, end of period</b>		<b>\$ 9,682,763</b>	<b>\$ 6,394,551</b>	<b>\$ 9,682,763</b>	<b>\$ 6,394,551</b>

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

# Esrey Energy Ltd.

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

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## 1. Nature of operations

Esrey Energy Ltd. (the "Company" or "Esrey") was incorporated on February 24, 2000 in the Province of British Columbia and changed its name from LNG Energy Ltd. to Esrey Energy Ltd. on November 13, 2013. The Company's common shares trade under the symbol "EEL" on the TSX Venture Exchange. The Company is engaged in exploration activities on its oil and gas properties in Papua New Guinea and Bulgaria. The address of Esrey's registered office is Suite 250, 1075 West Georgia Street, Vancouver, British Columbia, V6E 3C9.

## 2. Basis of presentation and going concern

### (a) *Statement of compliance*

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed consolidated interim financial statements were approved for issuance by the Board of Directors on May 14, 2015.

### (b) *Basis of measurement, judgments and estimates*

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 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, 2014.

### (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 spend significant 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-in arrangements or the sale of properties in order to generate this capital.

There can be no assurance that funding will be available to the Company when needed, or if available, that this funding will be on acceptable terms. If adequate funds are not available, the Company may not be able to further develop its exploration and evaluation projects.

# Esrey Energy Ltd.

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

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## 2. Basis of presentation (continued)

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

Even if adequate funds are available, there is no guarantee that the Company will meet the work commitments dictated by the terms of the concessions (Note 4). If the Company does not meet the work commitments dictated by the terms of a concession and is not able to obtain an amendment or extension, the Company risks losing the concession. Whether the Company meets the work commitments of a concession or not, there is no guarantee that the Company will discover commercially economical reserves or, if commercially economical reserves are found, there is no guarantee that the Company will be able to further develop its properties. The Company presently does not have sufficient funds to develop all of its existing properties and to continue with ongoing operations. As a result, material uncertainties exist with respect to the recovery of costs previously spent on capital projects and the ability to find, develop and produce oil and natural gas reserves. In turn, significant doubt may exist with respect to the Company's ability to continue as a going concern.

Management believes the use of the going concern assumption is appropriate based upon the assumption that the Company will have sufficient cash resources to meet its ongoing obligations as they become due in the normal course of operations. The Company has successfully raised financing in the past and believes that it may be able to raise the necessary financing in the future.

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

## 3. Significant accounting policies

The preparation of these unaudited condensed consolidated interim financial statements is based on accounting principles and practices consistent with those used in the preparation of the audited consolidated financial statements as at September 30, 2014, amended, where applicable, by the adoption of the new and 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, 2014.

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

Effective October 1, 2014, the Company adopted the following new and revised IFRS that were issued by the IASB.

#### (i) *IFRS 2 Share-based Payment*

The amendment to IFRS 2 redefines the definition of "vesting condition." The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.

#### (ii) *IFRS 3 Business Combinations*

The amendments to IFRS 3 provide further clarification on the accounting treatment for contingent consideration, and provide a scope exception for joint ventures. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.



# Esrey Energy Ltd.

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

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## 3. Significant accounting policies (continued)

### (a) Application of new and revised IFRSs (continued)

#### (iii) IFRS 8 Operating Segments

The amendments to IFRS 8 provide further clarification on the disclosure required for the aggregation of segments and the reconciliation of segment assets. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.

#### (iv) IFRS 13 Fair Value Measurement

The amendment to IFRS 13 provides further details on the scope of the portfolio exception. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.

#### (v) IAS 16 Property, Plant and Equipment

The amendment to IAS 16 deals with the proportionate restatement of accumulated depreciation on revaluation. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.

#### (vi) IAS 24 Related Party Disclosures

The amendment to IAS 24 deals with the disclosure required for management entities. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.

#### (vii) IAS 32 Financial Instruments: Presentation

The amendments to IAS 32 pertain to the application guidance on the offsetting of financial assets and financial liabilities, focused on four main areas: the meaning of 'currently has a legally enforceable right of set-off', the application of simultaneous realization and settlement, the offsetting of collateral amounts and the unit of account for applying the offsetting requirements. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.

#### (viii) IAS 38 Intangible Assets

The amendment to IAS 38 deals with the proportionate restatement of accumulated depreciation on revaluation. The application of this IFRS did not have a material impact on the amounts reported for the current or prior years.

### (b) Future accounting pronouncements

Certain pronouncements have been issued by the IASB that are mandatory for accounting years beginning after October 1, 2014 or later years.

# Esrey Energy Ltd.

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

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## 3. Significant accounting policies (continued)

### (b) Future accounting pronouncements (continued)

#### (i) Effective for annual periods beginning on or after October 1, 2016

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

The amendments to IFRS 5 add specific guidance for cases in which an entity reclassifies an asset from held-for-sale to held-for-distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

- *IFRS 10 Consolidated Financial Statements*

The amendments to IFRS 10 deal with the sale or contribution of assets between an investor and its associate or joint venture.

- *IFRS 11 Joint Arrangements*

The amendments to IFRS 11 deal with the accounting for acquisitions of an interest in a joint operation.

- *IFRS 12 Disclosure of Interests in Other Entities*

The amendments to IFRS 12 deal with the application of the consolidation exception.

- *IAS 1 Presentation of Financial Statements*

The amendments to IAS 1 deal with improving presentation and disclosure requirements in financial statements.

- *IAS 16 Property, Plant and Equipment*

The amendments to IAS 16 deal with the clarification of acceptable methods of depreciation and amortization, as well as changes to the scope of IAS 16 to include bearer plants.

- *IAS 27 Separate Financial Statements*

The amendments to IAS 27 reinstate the equity method as a method of accounting for investments in subsidiary, joint ventures and associates in an entity's separate financial statements.

- *IAS 28 Investments in Associate and Joint Ventures*

The amendments to IAS 28 deal with the sale or contribution of assets between an investor and its associate or joint venture.

- *IAS 34 Interim Financing Reporting*

The amendments to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference.

# Esrey Energy Ltd.

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

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## 3. Significant accounting policies (continued)

### (b) Future accounting pronouncements (continued)

(i) *Effective for annual periods beginning on or after October 1, 2016 (continued)*

- *IAS 38 Intangible Assets*

The amendments to IAS 38 deal with the clarification of acceptable methods of depreciation and amortization.

(ii) *Effective for annual periods beginning on or after October 1, 2018*

- *IFRS 7 Financial Instruments; Disclosures*

*The amendments to IFRS 7 outline the disclosures required when initially applying IFRS 9 Financial Instruments.*

- *IFRS 9 Financial Instruments*

IFRS 9 is the first step in the process to replace IAS 39 Financial Instruments: recognition and measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39.

- *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.

The Company has not early adopted these new and amended standards and is currently assessing the impact that these standards will have on the unaudited condensed consolidated interim financial statements.

# Esrey Energy Ltd.

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

## 4. Exploration and evaluation assets

	Papua New Guinea	Bulgaria	Poland	United States	Total
<b>Balance, September 30, 2013</b>	<b>\$ 44,442,606</b>	<b>\$ 7,570,435</b>	<b>\$ 1,286,009</b>	<b>\$ 2,391,844</b>	<b>\$ 55,690,894</b>
Additions	263,816	-	64,965	69,582	398,363
Capitalized share-based payments	253	-	311	-	564
Proceeds from farm-in	(2,710,250)	-	-	-	(2,710,250)
Foreign exchange movement	5,658,851	-	126,460	188,271	5,973,582
<b>Balance, September 30, 2014</b>	<b>\$ 47,655,276</b>	<b>\$ 7,570,435</b>	<b>\$ 1,477,745</b>	<b>\$ 2,649,697</b>	<b>\$ 59,353,153</b>
Additions	144,793	-	-	32,406	177,199
Capitalized share-based payments	-	-	-	-	-
Foreign exchange movement	2,494,049	-	-	333,321	2,827,370
<b>Balance, March 31, 2015</b>	<b>\$ 50,294,118</b>	<b>\$ 7,570,435</b>	<b>\$ 1,477,745</b>	<b>\$ 3,015,424</b>	<b>\$ 62,357,722</b>
<b>Accumulated depletion and impairment losses</b>					
<b>Balance, September 30, 2013</b>	<b>\$ 38,992,334</b>	<b>\$ 7,570,435</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 46,562,769</b>
Impairment	85,216	-	1,419,693	91,317	1,596,226
Foreign exchange movement	4,844,961	-	58,052	3,097	4,906,110
<b>Balance, September 30, 2014</b>	<b>\$ 43,922,511</b>	<b>\$ 7,570,435</b>	<b>\$ 1,477,745</b>	<b>\$ 94,414</b>	<b>\$ 53,065,105</b>
Impairment	-	-	-	2,742,781	2,742,781
Foreign exchange movement	2,294,241	-	-	178,229	2,472,470
<b>Balance, March 31, 2015</b>	<b>\$ 46,216,752</b>	<b>\$ 7,570,435</b>	<b>\$ 1,477,745</b>	<b>\$ 3,015,424</b>	<b>\$ 58,280,356</b>
<b>Carrying amounts</b>					
Carrying value at September 30, 2013	\$ 5,450,272	\$ -	\$ 1,286,009	\$ 2,391,844	\$ 9,128,125
Carrying value at September 30, 2014	\$ 3,732,765	\$ -	\$ -	\$ 2,555,283	\$ 6,288,048
<b>Carrying value at March 31, 2015</b>	<b>\$ 4,077,366</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,077,366</b>

# Esrey Energy Ltd.

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

## 4. Exploration and evaluation assets (continued)

### (a) Papua New Guinea

#### (i) Licenses

As at March 31, 2015, the Company holds a 16.85% working interest in Petroleum Prospecting License (“PPL”) 486 (formerly PPL 319), an 84.25% working interest in PPL 321, and a 20% working interest in Petroleum Retention License (“PRL”) 13 through permits received from the Minister of Petroleum and Energy for Papua New Guinea. 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 that include:

- Years 1 and 2: acquisition of a minimum of 50km of seismic and the drilling of the first exploration well;
- Years 3 and 4: analysis of the data acquired in years 1 and 2, acquisition of an additional minimum of 50km of seismic, and the drilling of a second exploration well; and
- Years 5 and 6: analysis of data from the previous four years and the drilling of a third exploration well.

The 16.85% interest in PPL 486 assumes that Heritage Oil Ltd. (“Heritage”) will fulfill its work commitments in the future and earn its full 80% farm-in (Note 4(a)(ii)). In accordance with the amended farm-in agreement (Note 4(a)(ii)), the Company would not be responsible for any costs prior to the spudding of the second exploration well, but would be responsible for 14% of the costs of the second exploration well and for 20% of the costs for the remainder of the work program.

#### *PPL 321*

The Company submitted an application to simultaneously surrender and top-file PPL 321 in August 2014, seeking a new 6 year license. PPL 321 expired in November 2014 and, as of May 14, 2015, the Company had not received a formal response from the DPE with regards to the top-filing application for PPL 321. If the Company does not receive the new license for PPL 321, it would result in the full impairment of the capitalized costs associated with PPL 321. As at March 31, 2015, the Company had capitalized approximately Cdn\$909,010 (1.9 million kina) in costs with respect to PPL 321.

#### *PRL 13*

The 20% interest in PRL 13 assumes that Heritage will fulfill its work commitments in the future and earn its full 80% farm-in (Note 4(a)(ii)). Effective June 2014, the Company was granted a three year extension for PRL 13. The current work program includes the acquisition of 10km of seismic data, additional geological work and the further acquisition of seismic or the drilling of a well conditional upon the results of previous elements of the work program.

# Esrey Energy Ltd.

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## 4. Exploration and evaluation assets (continued)

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

#### (i) Licenses (continued)

All three of the licenses are subject to a 22.5% back-in participation right in favour of the government. The government may exercise this right at any point in time in exchange for 22.5% of the costs incurred in the development of the property until that point in time. The government also has a 2% royalty over any oil and natural gas production that may occur with respect to these licenses.

If the Company does not meet the expenditure or work program requirements outlined above, it may result in the loss of the licenses if variation applications are not approved by the Department of Petroleum and Energy (“DPE”).

#### (ii) Business transactions

On April 22, 2013, the Company closed a farm-in agreement with Heritage in which Heritage obtained an 80% participating interest in both PPL 486 and PRL 13, subject to the fulfillment of certain work commitments, in exchange for payment of \$7,522,079. The work commitments consisted of the following:

- Acquisition of a minimum of 78km of seismic within the license areas; and,
- Drilling and completion of one exploration well in PPL 486 to a depth sufficient to test identified exploration targets.

In May 2014, Heritage informed the Company it had acquired a total of 235km of seismic, of which 215km was on PPL 486 and 20km was on PRL 13. This satisfies the requirements of the second tranche of the farm-in agreement and ensures Heritage retains a minimum 40% interest in PPL 486 and PRL 13. In order for Heritage to retain its additional 40% interest, Heritage must 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 (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 was amended as follows:

- Telemu received a further cash payment of US\$2,500,000 (Cdn\$2,710,250);
- Heritage will carry Telemu for 30% of Telemu's 20% interest in a second exploration well, in the event that a second well is drilled; and,
- Heritage will fund 100% of any joint operating costs incurred after the fulfillment of its obligations under the farm-in agreement in respect of the first exploration well until the earlier of the spud of the second exploration well or the 180<sup>th</sup> day following the date of testing and suspension or abandonment of the first exploration well.

# Esrey Energy Ltd.

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## 4. Exploration and evaluation assets (continued)

### (b) Bulgaria

In September 2011, the Company entered into a farm-in transaction with a wholly owned subsidiary of TransAtlantic Petroleum Ltd. ("TransAtlantic"), to earn a 50% interest in a future production concession (the "Etropole concession") in Bulgaria. The application for the Etropole concession was submitted in November 2011, amended in April 2012 and denied in July 2014. The denial was partially due to the enactment of legislation banning fracture stimulation by the Bulgarian Parliament in January 2012. In August 2014, TransAtlantic and the Company filed a formal appeal to the denial of the Etropole concession.

In exchange for the Company's 50% undivided interest in the Etropole concession, the Company is expected to fund up to US\$20 million of drilling, completion costs and additional aggregate acreage payments, of which US\$7,492,122 (Cdn\$7,570,122) has already been funded. These costs remain fully impaired as at March 31, 2015, as the ban on fracture stimulation created uncertainty with respect to the ultimate cost recovery of the Company's assets in Bulgaria.

### (c) Poland

The Poland exploration and evaluation asset balance consisted of capitalized costs incurred by the Company related to its interest in concessions in Poland that are held through its interest in an associate and two joint ventures (Note 6). The Company's interest in these joint ventures are accounted for using the equity method.

As at March 31, 2015, the Company was in the process of exiting from all investments in Poland, which resulted in the Poland exploration and evaluation assets remaining impaired in full. On March 31, 2015, the Company entered into a binding agreement to withdraw from the Company's investment in Saponis Investments Sp z.o.o. (Note 6).

### (d) United States

#### (i) Sheridan County

During the three months ended March 31, 2015, the Company relinquished all of its oil and gas leases in Sheridan County and plugged and abandoned the Archer well. The costs associated with the oil and gas leases were impaired in full during the three months ended December 31, 2014, and the net book value of both the oil and gas leases and the Archer well remained at \$Nil as at March 31, 2015.

#### (ii) Cascade County

During the six months ended March 31, 2015, the Company relinquished all of its oil and gas leases in Cascade County and recognized a full impairment of the costs associated with these leases.

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## 5. Property, plant and equipment

### Cost

Balance, September 30, 2013	\$	329,384
Additions		14,038
Disposals		(226,862)
Foreign exchange movement		14,421
Balance, September 30, 2014	\$	130,981
Foreign exchange movement		115
<b>Balance, March 31, 2015</b>	<b>\$</b>	<b>131,096</b>

### Accumulated depreciation and impairment losses

Balance, September 30, 2013	\$	184,599
Depreciation		37,221
Disposals		(158,230)
Foreign exchange movement		10,637
Balance, September 30, 2014	\$	74,227
Depreciation		7,394
Foreign exchange movement		(8)
<b>Balance, March 31, 2015</b>	<b>\$</b>	<b>81,613</b>

### Carrying amount

Carrying value at September 30, 2013	\$	144,785
Carrying value at September 30, 2014	\$	56,754
<b>Carrying value at March 31, 2015</b>	<b>\$</b>	<b>49,483</b>

## 6. Associate and joint ventures

### (a) Saponis Investments Sp z.o.o.

On March 31, 2015, the Company entered into a binding agreement to withdraw (the "Withdrawal Agreement") from the Company's investment in Saponis. In accordance with the Withdrawal Agreement, the Company transferred its 42.96% interest in Saponis to BNK, paid the final cash call of US\$100,000, and assigned and forgave its loans receivable from Saponis in exchange for BNK assuming the future obligations of Saponis. As at March 31, 2015, the Company's investment in Saponis remained at \$Nil.

### (b) Joyce Podlasie LLC

As at March 31, 2015, the Company, through its subsidiary, Kaynes, holds a 50% interest in Joyce Podlasie LLC ("Joyce"). The remaining 50% interest in Joyce is owned by San Leon Energy Plc ("San Leon"). As of February 28, 2015, the Company along with its joint venture partner San Leon Energy Plc ("San Leon") informed the Ministry of Geology that the Ilawa concession was being relinquished. As of May 14, 2015, the Company has not received formal acknowledgement of the relinquishment from the Ministry of Geology. As at March 31, 2015, the Company's investment in the Joyce Podlasie LLC joint venture remained at \$Nil.



# Esrey Energy Ltd.

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## 6. Associate and joint ventures (continued)

### (c) Maryani Podlasie, LLC

As at March 31, 2015, the Company, through its subsidiary, Kaynes, holds a 50% interest in Maryani. The remaining 50% interest in Maryani is owned by San Leon. The Wegrow concession that was previously held by Maryani expired in June 2014, which resulted in a full impairment of the Company's investment in Maryani during the year ended September 30, 2014. As at March 31, 2015, the investment in Maryani remained at \$Nil.

### (d) EERL Holdings (BVI) Ltd

As at March 31, 2015, the Company holds a 50% interest in EERL Holdings (BVI) Ltd ("EERL Holdings"). The remaining 50% ownership in EERL Holdings is owned by a third party. EERL Holdings owns 31.5% of Telemu. As at March 31, 2015, the investment in EERL Holdings is \$124,959 (September 30, 2014 – 127,347).

## 7. Decommissioning obligations

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

	March 31, 2015	September 30, 2014
Balance, beginning of the period	\$ 55,876	\$ 52,965
Accretion expense	562	1,721
Settlement of decommissioning obligations	(50,362)	-
Foreign exchange	(6,076)	1,190
<b>Total current decommissioning obligations</b>	<b>\$ -</b>	<b>\$ 55,876</b>

The undiscounted cash flow required to settle the obligation for the Archer Well in Montana, USA was approximately US\$50,000. The calculation was assessed using a risk-free interest rate of 2.55% and an assumed inflation rate of 2.0% per annum. During March 2015, the Archer Well was plugged and abandoned, which resulted in a decommissioning obligation of \$Nil as at March 31, 2015.

## 8. Loans payable

	March 31, 2015	September 30, 2014
Current credit facilities	\$ -	\$ 3,656,852
Current loan payable	223,192	196,978
<b>Current loans payable</b>	<b>\$ 223,192</b>	<b>\$ 3,853,830</b>

### (a) Credit facilities

In February 2012, the Company's wholly owned subsidiary, Kaynes, entered into two non-revolving credit facilities totaling US\$5,000,000 ("the Credit Facilities"). On April 28, 2014 the Company settled US\$2,636,363 of the Credit Facilities through the issuance of an aggregate 10,943,396 common shares of Esrey at a deemed price of Cdn\$0.265 per common share.

# Esrey Energy Ltd.

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Notes to the unaudited condensed consolidated interim financial statements  
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## 8. Loans payable (continued)

### (a) Credit facilities (continued)

The Credit Facilities matured in February 2015. On March 31, 2015 the Company entered into a debt settlement agreement to settle in full the matured non-revolving credit facilities owed by Kaynes. At maturity, Kaynes owed US\$3,377,776 under the Credit Facilities. In exchange for the settlement of the amount due, the Company, through its wholly owned subsidiaries:

- Repaid US\$1,600,000;
- Agreed to fund the lender's share of certain work programs in Papua New Guinea that the parties are involved in; and
- Agreed that for a period of 72 months after the date of closing to acquire any new oil and gas licenses in Papua New Guinea through the Company's subsidiary, Telemu No. 18 Limited, in which the lender has a 15.75% indirect interest.

As at March 31, 2015, the US\$1,600,000 is included in accounts payable. This amount was paid subsequent to quarter end.

For the three and six months ended March 31, 2015, the interest expense related to the Credit Facilities was \$69,026 and \$134,184 respectively (\$113,010 and \$214,783 for the three and six months ended March 31, 2014, respectively) and was payable upon maturity. Interest was accrued at a fixed rate of 7% per annum, compounded semi-annually.

### (b) Loan

As at March 31, 2015, the Company has a loan payable due to EERL Holdings of \$223,192 (September 30, 2014 - \$196,978).

## 9. Share capital

### (a) Authorized

- Unlimited number of common shares with no par value.

### (b) Stock consolidation and split

On November 18, 2013, pursuant to a special resolution passed by shareholders on November 6, 2013, the Company consolidated its common shares on a 1,000 old for 1 new basis (the "Consolidation"). Shareholders holding less than one full share post-Consolidation were entitled to a cash payment of \$0.01 per share on a pre-Consolidation basis in lieu of a fractional share. Following the Consolidation, the Company immediately completed a stock split on the basis of 1 old for 50 new, with fractional shares being rounded to the nearest whole number (the "Stock Split"). The Consolidation and Stock Split achieved a 20 to 1 consolidation (the "Effective Consolidation"). Prior to the Effective Consolidation, the Company had 577,353,410 common shares issued and outstanding. Subsequent to the Effective Consolidation, the Company had 28,819,375 common shares issued and outstanding.

All comparative references to the number of shares, options, weighted average number of common shares and loss per share have been restated for the Effective Consolidation.

# Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements  
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## 9. Share capital (continued)

### (c) Issuance of shares

On April 28, 2014 the Company issued an aggregate of 10,943,396 common shares at a deemed price of Cdn\$0.265 per common share in settlement of US\$2,636,363 of the Company's US\$5,000,000 non-revolving credit facilities. The Company recorded a \$704,730 loss upon the issuance of the 10,943,396 common shares since the fair value of the shares issued was \$3,611,321 based on a closing price of Cdn\$0.33 per common share on the day of settlement.

### (d) Share options

#### (i) Movements in share options during the period

The changes in share options during the six months ended March 31, 2015 and year ended September 30, 2014 were as follows:

	March 31, 2015		September 30, 2014	
	Number of	Average	Number of	Average
	Options	Exercise	Options	Exercise
		Price		Price
Balance, beginning of period	1,256,500	\$0.63	1,457,000	\$4.70
Granted	-	\$0.00	994,000	\$0.12
Expired	-	\$0.00	(129,250)	\$1.76
Forfeited	-	\$0.00	(185,000)	\$8.31
Surrendered	-	\$0.00	(880,250)	\$5.01
<b>Balance, end of period</b>	<b>1,256,500</b>	<b>\$0.63</b>	<b>1,256,500</b>	<b>\$0.63</b>

Options outstanding during the three and six months ended March 31, 2015, resulted in share-based payment expense of \$1,607 and \$13,590 respectively (three and six months ended March 31, 2014 - \$75,192 and \$76,870, respectively) of which \$Nil was capitalized (three and six months ended March 31, 2014 - \$Nil and \$564, respectively).

#### (ii) Fair value of share options granted in the period

On January 8, 2014, the Company granted 994,000 stock options to directors, officers, employees and consultants of the Company at an exercise price of Cdn\$0.12 per share. One third of these options vested immediately, one third vested on July 8, 2014 and one third vested on January 8, 2015. The options expire on January 8, 2019.

The fair value of the options granted is estimated at the time of the grant using the Black-Scholes option pricing model with the following assumptions:

	January 8, 2014
Exercise price per option	\$0.12
Share price at date of grant	\$0.15
Expected life	5 years
Risk-free interest rate	1.45%
Dividend yield	Nil
Expected volatility	196.38%
Estimated fair value per option	\$0.15

# Esrey Energy Ltd.

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## 9. Share capital (continued)

(d) *Share options (continued)*

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

The following table summarizes information about outstanding and exercisable options at March 31, 2015.

Options outstanding	Options exercisable	Exercise price	Expiry date
47,500	47,500	\$2.40	July 18, 2016
231,250	231,250	\$2.40	April 19, 2016
977,750	977,750	\$0.12	January 8, 2019
<b>1,256,500</b>	<b>1,256,500</b>		

The weighted average exercise price of options exercisable at March 31, 2015 is \$0.63.

## 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:

<b>Balance, September 30, 2013</b>	<b>\$ 572,530</b>
Non-controlling interests' share of Telemu's loss	(30,736)
Foreign exchange translation	70,229
<b>Balance, September 30, 2014</b>	<b>\$ 612,023</b>
Non-controlling interests' share of Telemu's income	15,537
Foreign exchange translation	32,487
<b>Balance, March 31, 2015</b>	<b>\$ 660,047</b>

## 11. Income tax recovery (expense)

In October 2014, the Company received a US\$1,532,675 tax refund.

## 12. Discontinued operations

As at March 31, 2015, the Company had made the decision to exit its Poland operations. The following table presents summarized financial information related to the discontinued operation of the Company's assets in Poland:

(a) *Statement of comprehensive loss*

	Three months ended		Six months ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Write-down of loan receivable	\$ (123,356)	\$ -	\$ (211,214)	-
Foreign currency translation loss - Saponis	(3,150,740)	-	(3,150,740)	-
<b>Loss from discontinued operations</b>	<b>\$(3,274,096)</b>	<b>\$ -</b>	<b>\$(3,361,954)</b>	<b>\$ -</b>

# Esrey Energy Ltd.

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## 12. Discontinued operations (continued)

### (a) Statement of comprehensive loss (continued)

As at and during the six months ended March 31, 2015, the Company recast certain comparative information relating to discontinued operations as a result of the adoption of IFRS 11 Joint Arrangements. During the six months ended March 31, 2015, share of associate and joint ventures' income decreased from \$5,452,863 to \$Nil.

### (b) Statement of cash flows

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Advances to associate and joint ventures	\$ (123,356)	\$ (170,760)	\$ (211,214)	\$ (303,759)
<b>Cash flows from discontinued operations</b>	<b>\$ (123,356)</b>	<b>\$ (170,760)</b>	<b>\$ (211,214)</b>	<b>\$ (303,759)</b>

## 13. 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 March 31,		Six months ended March 31,	
	2015	2014	2015	2014
<b>Net loss attributable to equity shareholders</b>				
From continuing operations	\$ (212,228)	\$ (1,454,768)	\$ (1,284,970)	\$ (2,299,752)
From discontinued operations	(3,274,096)	-	(3,361,954)	-
	<b>\$ (3,486,324)</b>	<b>\$ (1,454,768)</b>	<b>\$ (4,646,924)</b>	<b>\$ (2,299,752)</b>
Weighted average number of ordinary shares	<b>39,762,771</b>	28,819,375	<b>39,762,771</b>	28,832,112
Effect of dilutive securities				
Stock options	-	-	-	-
Diluted weighted average number of ordinary shares	<b>39,762,771</b>	28,819,375	<b>39,762,771</b>	28,832,112
<b>Loss per share - basic and diluted from:</b>				
Continuing operations	\$ (0.01)	\$ (0.05)	\$ (0.03)	\$ (0.08)
Discontinued operations	\$ (0.08)	\$ -	\$ (0.08)	\$ -

As at March 31, 2015, the Company has 1,256,500 (March 31, 2014 – 1,392,000) potential ordinary shares that are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted loss per share.

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## 14. Supplemental cash flow disclosure

The following table provides further information with regards to the changes in non-cash working capital disclosed in the statement of cash flows:

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Amounts receivable	\$ (168,582)	\$ (84,700)	\$ (167,433)	\$ 263,092
Prepaid expenses and other deposits	(40,340)	(2,686)	29,121	18,770
Accounts payable and accrued liabilities	572,094	(28,735)	553,704	(314,129)
<b>Net changes in non-cash working capital items</b>	<b>\$ 363,172</b>	<b>\$ (116,121)</b>	<b>\$ 415,392</b>	<b>\$ (32,267)</b>
Relating to:				
Operating activities	\$ 363,172	\$ (123,578)	\$ 415,392	\$ (368,702)
Investing activities	-	7,457	-	336,435
<b>Net changes in non-cash working capital items</b>	<b>\$ 363,172</b>	<b>\$ (116,121)</b>	<b>\$ 415,392</b>	<b>\$ (32,267)</b>

## 15. Related party transactions

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below.

The Company's related party consists of Pangea Management Corp., a private consulting company owned by a family member of one of the Company's directors. The Company incurred the following fees incurred in the normal course of operations in connection with its related party. Expenses have been measured at the exchange amount which is determined on a cost recovery basis.

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Consulting fees	\$ 12,000	\$ 12,000	\$ 24,000	\$ 24,000
<b>Total</b>	<b>\$ 12,000</b>	<b>\$ 12,000</b>	<b>\$ 24,000</b>	<b>\$ 24,000</b>

Amounts due to related parties are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at March 31, 2015, included \$Nil (September 30, 2014 – \$Nil) which was due to the Company's related parties.

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## 16. Compensation of key management personnel

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

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Management fees	\$ 133,570	\$ 119,856	\$ 262,801	\$ 217,242
Director fees	6,000	6,000	12,000	12,000
Share-based payments (i)	1,323	60,895	11,189	62,549
	<b>\$ 140,893</b>	<b>\$ 186,751</b>	<b>\$ 285,990</b>	<b>\$ 291,791</b>

(i) Share-based payments are the fair value of options granted to key management personnel including the CEO, CFO, officers and directors of the Company.

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three and six months ended March 31, 2015 and 2014. Accounts payable and accrued liabilities at March 31, 2015 include \$Nil of management or director fees payable (September 30, 2014 - \$Nil). Amounts due to or from related parties are unsecured, non-interest bearing and due on demand.

## 17. Segmented information

### (a) Geographic information

The Company's assets by geographic areas as at March 31, 2015 and September 30, 2014 are as follows:

	March 31, 2015				
	Papua New Guinea	Poland	United States	Canada	Total
Current assets	\$ 379,926	\$ 40,334	\$ 4,621,257	\$ 5,224,353	\$ 10,265,870
Exploration and evaluation assets	4,077,366	-	-	-	4,077,366
Property, plant and equipment	2,657	665	-	46,161	49,483
Investment in associate and joint ventures	-	-	-	124,959	124,959
Deferred income tax	35,128	-	-	-	35,128
	<b>\$ 4,495,077</b>	<b>\$ 40,999</b>	<b>\$ 4,621,257</b>	<b>\$ 5,395,473</b>	<b>\$ 14,552,806</b>

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## 17. Segmented information

(a) Geographic information (continued)

	September 30, 2014				
	Papua New Guinea	Poland	United States	Canada	Total
Current assets	\$ 3,159,523	\$ 112,852	\$ 4,800,564	\$ 485,088	\$ 8,558,027
Exploration and evaluation assets	3,732,765	-	2,555,283	-	6,288,048
Property, plant and equipment	2,739	1,078	-	52,937	56,754
Investment in joint venture	-	-	-	127,347	127,347
	<b>\$ 6,895,027</b>	<b>\$ 113,930</b>	<b>\$ 7,355,847</b>	<b>\$ 665,372</b>	<b>\$ 15,030,176</b>

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

	Three months ended March 31, 2015				
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from					
Continuing operations	\$ 348,346	\$ 9,488	\$ (992,426)	\$ 430,791	\$ (203,801)
Discontinued operations	-	(3,274,096)	-	-	(3,274,096)
<b>Net income (loss)</b>	<b>\$ 348,346</b>	<b>\$ (3,264,608)</b>	<b>\$ (992,426)</b>	<b>\$ 430,791</b>	<b>\$ (3,477,897)</b>
<b>Net income (loss) attributable to</b>					
Non-controlling interest	\$ 8,427	\$ -	\$ -	\$ -	\$ 8,427
Equity shareholders of the Company	339,919	(3,264,608)	(992,426)	430,791	(3,486,324)
	<b>\$ 348,346</b>	<b>\$ (3,264,608)</b>	<b>\$ (992,426)</b>	<b>\$ 430,791</b>	<b>\$ (3,477,897)</b>

	Three months ended March 31, 2014				
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from					
Continuing operations	\$ 117,281	\$ (157,718)	\$ (1,263,583)	\$ (162,786)	\$ (1,466,806)
Discontinued operations	-	-	-	-	-
Net income (loss)	\$ 117,281	\$ (157,718)	\$ (1,263,583)	\$ (162,786)	\$ (1,466,806)
Net (loss) income attributable to					
Non-controlling interest	\$ (12,038)	\$ -	\$ -	\$ -	\$ (12,038)
Equity shareholders of the Company	129,319	(157,718)	(1,263,583)	(162,786)	(1,454,768)
	<b>\$ 117,281</b>	<b>\$ (157,718)</b>	<b>\$ (1,263,583)</b>	<b>\$ (162,786)</b>	<b>\$ (1,466,806)</b>



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## 17. Segmented information (continued)

(a) Geographic information (continued)

Six months ended March 31, 2015					
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from					
Continuing operations	\$ 492,586	\$ (52,006)	\$ (2,152,134)	\$ 442,121	\$ (1,269,433)
Discontinued operations	-	(3,361,954)	-	-	(3,361,954)
<b>Net income (loss)</b>	<b>\$ 492,586</b>	<b>\$ (3,413,960)</b>	<b>\$ (2,152,134)</b>	<b>\$ 442,121</b>	<b>\$ (4,631,387)</b>
<b>Net income (loss) attributable to</b>					
Non-controlling interest	\$ 15,537	\$ -	\$ -	\$ -	\$ 15,537
Equity shareholders of the Company	477,049	(3,413,960)	(2,152,134)	442,121	(4,646,924)
	<b>\$ 492,586</b>	<b>\$ (3,413,960)</b>	<b>\$ (2,152,134)</b>	<b>\$ 442,121</b>	<b>\$ (4,631,387)</b>
Six months ended March 31, 2014					
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from					
Continuing operations	\$ (5,029)	\$ (288,004)	\$ (1,710,111)	\$ (326,073)	\$ (2,329,217)
Discontinued operations	-	-	-	-	-
<b>Net income (loss)</b>	<b>\$ (5,029)</b>	<b>\$ (288,004)</b>	<b>\$ (1,710,111)</b>	<b>\$ (326,073)</b>	<b>\$ (2,329,217)</b>
<b>Net income (loss) attributable to</b>					
Non-controlling interest	\$ (29,465)	\$ -	\$ -	\$ -	\$ (29,465)
Equity shareholders of the Company	24,436	(288,004)	(1,710,111)	(326,073)	(2,299,752)
	<b>\$ (5,029)</b>	<b>\$ (288,004)</b>	<b>\$ (1,710,111)</b>	<b>\$ (326,073)</b>	<b>\$ (2,329,217)</b>

## 18. Capital management

The Company manages, as capital, the components of shareholders' equity. The Company's objectives when managing capital are to (i) safeguard the Company's ability to continue as a going concern in order to explore its oil and gas interests, and (ii) to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms, option its oil and gas properties for cash and/or expenditure commitments, enter into joint venture arrangements, or borrow, acquire or dispose of assets.

The Company's policy is to invest its cash in highly liquid, interest-bearing, fully guaranteed bank-sponsored instruments with maturities of a year or less from the date of acquisition. The Company is not subject to externally imposed capital requirements.

# Esrey Energy Ltd.

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## 19. Financial instruments

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

### (a) Fair value of financial instruments

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

The carrying amount for cash and cash equivalents, amounts receivable, prepaid expenses and other deposits 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.

#### (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 2(c)).

# Esrey Energy Ltd.

Notes to the unaudited condensed consolidated interim financial statements  
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## 19. 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 table summarizes the Company's significant remaining contractual maturities for financial liabilities at March 31, 2015 and September 30, 2014.

	Less than 3 months	3 - 12 months	1 - 5 years	Total
<b>Accounts payable and accrued liabilities</b>	<b>\$ 2,812,615</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,812,615</b>
<b>Loans payable</b>	<b>223,192</b>	<b>-</b>	<b>-</b>	<b>223,192</b>
<b>Obligation to fund work programs</b>	<b>-</b>	<b>-</b>	<b>2,252,246</b>	<b>2,252,246</b>
<b>Total</b>	<b>\$ 3,035,807</b>	<b>\$ -</b>	<b>\$ 2,252,246</b>	<b>\$ 5,288,053</b>

	September 30, 2014			
	Less than 3 months	3 - 12 months	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 307,337	\$ -	\$ -	\$ 307,337
Decommissioning obligation	-	55,876	-	55,876
Loans payable	196,978	3,656,852	-	3,853,830
<b>Total</b>	<b>\$ 504,315</b>	<b>\$ 3,712,728</b>	<b>\$ -</b>	<b>\$ 4,217,043</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.

##### (2) 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.

# Esrey Energy Ltd.

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## 20. Events after the reporting period

### *(a) Grant of stock options*

The Company granted 2,376,000 stock options pursuant to its previously approved stock option plan to directors, officers, employees and consultants of the Company. The options are exercisable over 5 years at an exercise price of \$0.095, with one third vesting immediately, one third in six months, and one third in twelve months.

### *(b) Payment of accounts payable*

As at March 31, 2015, the Company had a US\$1,600,000 payable related to the settlement of the Credit Facilities (Note 8). The US\$1,600,000 was paid in early April 2015.