



CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended March 31, 2016 and 2015

(in Canadian dollars)

(Unaudited)

NOTICE TO READER

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

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

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

Esrey Energy Ltd.

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

	Note	March 31, 2016	September 30, 2015
ASSETS			
Current assets			
Cash and cash equivalents		\$ 7,308,546	\$ 6,782,208
Amounts receivable		46,028	59,928
Income taxes receivable	11	-	-
Prepaid expenses and other deposits		110,751	267,424
		7,465,325	7,109,560
Non-current assets			
Exploration and evaluation assets	4	2,967,152	3,212,596
Property, plant and equipment	5	33,843	42,092
Investment in associate and joint ventures	6	191,098	124,857
		\$ 10,657,418	\$ 10,489,105
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 190,920	\$ 185,315
Decommissioning obligations	7	-	-
Loans payable	8	392,355	236,713
		583,275	422,028
Equity			
Share capital	9	110,392,414	110,392,414
Contributed surplus	9	13,082,080	13,047,616
Accumulated other comprehensive income		7,458,672	7,641,666
Non-controlling interest	10	(128,743)	(53,335)
Deficit		(120,730,280)	(120,961,284)
		10,074,143	10,067,077
		\$ 10,657,418	\$ 10,489,105

Going Concern (Note 2(c))

Commitments (Note 4)

Approved and authorized for issue by the Board on May 17, 2016.

(Signed) "Paul Larkin"

Director

(Signed) "David Cohen"

Director

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

Esrey Energy Ltd.

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

	Note	Three months ended March 31,		Six months ended March 31,	
		2016	2015	2016	2015
Expenses:					
Depreciation	5	\$ 2,917	\$ 3,691	\$ 6,185	\$ 7,394
General and administrative expenses		109,246	117,456	190,107	236,199
Professional fees		233,143	277,531	497,292	540,433
Share based payments	9(d)	17,034	1,607	34,464	13,590
Travel and business development		3,073	6,969	3,903	21,762
Impairment of exploration and evaluation assets	4	-	119,919	-	2,742,781
		(365,413)	(527,173)	(731,951)	(3,562,159)
Other income (expenses):					
Accretion expense	7	-	(25)	-	(562)
Interest expense	8(a)	-	(69,026)	-	(134,184)
Interest income		901	1,779	1,694	3,740
Other income		2,909	121,521	6,550	122,178
Loss from disposal of equipment	5	(1,974)	-	(1,974)	-
Loss from investment in joint venture		1,304	(474)	(67,896)	(2,388)
Foreign exchange gain (loss)		(673,930)	621,448	(289,482)	915,679
		(670,790)	675,223	(351,108)	904,463
Income (loss) for the period before income tax		(1,036,203)	148,050	(1,083,059)	(2,657,696)
Income tax recovery	11	13,673	112,667	1,276,823	1,852,781
Income (loss) from continuing operations		(1,022,530)	260,717	193,764	(804,915)
Loss from discontinued operations	12	-	(611,443)	-	(699,301)
Net income (loss) for the period		\$ (1,022,530)	\$ (350,726)	\$ 193,764	\$ (1,504,216)
Attributable to:					
Non-controlling interest	10	(11,676)	8,427	(37,240)	15,537
Equity shareholders of the Company		(1,010,854)	(359,153)	231,004	(1,519,753)
		\$ (1,022,530)	\$ (350,726)	\$ 193,764	\$ (1,504,216)
Other comprehensive income					
Foreign currency translation gain (loss) attributed to non-controlling interest		(45,489)	31,180	(38,168)	32,487
Foreign currency translation gain for equity shareholders of the Company		25,547	933,100	182,994	838,795
		\$ (1,042,472)	\$ 613,554	\$ 338,590	\$ (632,934)
Basic and diluted income (loss) per share from:					
Continuing operations	13	\$ (0.03)	\$ 0.01	\$ 0.01	\$ (0.02)
Discontinued operations	13	\$ -	\$ (0.02)	\$ -	\$ (0.02)

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
Balance, October 1, 2014	39,762,771	\$ 110,392,414	\$ 12,861,607	\$ 7,451,804	\$ 612,023	\$ (120,504,715)	\$ 10,813,133
Share based payments (Note 9c)	-	-	13,590	-	-	-	13,590
Net gain (loss) for the period	-	-	-	-	15,537	(1,519,753)	(1,504,216)
Foreign currency translation	-	-	-	838,795	32,487	-	871,282
Balance, March 31, 2015	39,762,771	\$ 110,392,414	\$ 12,875,197	\$ 8,290,599	\$ 660,047	\$ (122,024,468)	\$ 10,193,789
Share based payments (Note 9c)	-	-	172,419	-	-	-	172,419
Distribution (Note 10)	-	-	-	-	(478,775)	-	(478,775)
Net gain (loss) for the period	-	-	-	-	(224,227)	1,063,184	838,957
Foreign currency translation	-	-	-	(648,933)	(10,380)	-	(659,313)
Balance, September 30, 2015	39,762,771	\$ 110,392,414	\$ 13,047,616	\$ 7,641,666	\$ (53,335)	\$ (120,961,284)	\$ 10,067,077
Share based payments (Note 9c)	-	-	34,464	-	-	-	34,464
Net gain (loss) for the period	-	-	-	-	(37,240)	231,004	193,764
Foreign currency translation	-	-	-	(182,994)	(38,168)	-	(221,162)
Balance, March 31, 2016	39,762,771	\$ 110,392,414	\$ 13,082,080	\$ 7,458,672	\$ (128,743)	\$ (120,730,280)	\$ 10,074,143

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

Esrey Energy Ltd.

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

	Note	Three months ended March 31,		Six months ended March 31,	
		2016	2015	2016	2015
Operating activities					
Income (loss) before income taxes		\$ (1,036,203)	\$ 235,908	\$ (1,083,059)	\$ (2,657,696)
Adjustments to net loss for non-cash items					
Depreciation	5	2,917	3,691	6,185	7,394
Share based payments	9(c)	17,034	1,607	34,464	13,590
Impairment of exploration and evaluation assets	4	-	119,919	-	2,742,781
Accretion expense	7	-	25	-	562
Interest expense	8(a)	-	69,026	-	134,184
Interest income		(901)	(1,779)	(1,694)	(3,740)
Loss from disposal of equipment	5	1,974	-	1,974	-
Loss from investment in joint venture		(1,304)	474	67,896	2,388
Foreign exchange loss (gain)		720,268	(621,448)	289,482	(915,679)
Net changes in non-cash working capital items	14	19,963	363,172	182,162	415,392
		(276,252)	170,595	(502,590)	(260,824)
Adjustments to net income (loss) for cash items					
Interest income received		902	824	1,696	2,114
Interest expense paid		-	(20)	-	(223)
Realized foreign exchange gain		2,362	15,632	333	13,745
Taxes received		1,277,914	78,673	1,276,823	1,818,787
Cash from operating activities by continuing operations		1,004,926	265,704	776,262	1,573,599
Cash used by operating activities by discontinued operations	12(a)	-	(87,858)	-	-
		1,004,926	177,846	776,262	1,573,599
Financing activities:					
Distribution		-	(464,518)	-	(464,518)
Loans from joint ventures		(300)	-	164,102	-
		(300)	(464,518)	164,102	(464,518)
Investing activities:					
Advances to associate and joint ventures	6, 12	-	(123,356)	-	(211,214)
Investment in joint ventures	6	8,530	(177,199)	(129,870)	(177,199)
Exploration and evaluation expenditures	4	(26,645)	127,772	(64,611)	-
		(18,115)	(172,783)	(194,481)	(388,413)
Foreign exchange effect on cash and cash equivalents		(509,169)	562,535	(219,545)	862,281
Net increase in cash and cash equivalents		477,342	103,080	526,338	1,582,949
Cash and cash equivalents, beginning of period		6,831,204	9,579,683	6,782,208	8,099,814
Cash and cash equivalents, end of period		\$ 7,308,546	\$ 9,682,763	\$ 7,308,546	\$ 9,682,763

See the accompanying notes to 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)

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 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and were approved and authorized for issuance by the Board of Directors on May 17, 2016.

(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, 2015.

(c) *Going concern*

These unaudited condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company continues to be in the exploration stage and therefore has generated no revenues to date from its existing properties. The Company will be required to incur significant amounts of capital on its exploration and evaluation projects in order to meet the work commitments dictated by the terms of the concessions, determine whether commercially economical reserves exist and, if commercially economical reserves exist, to further develop the properties. As a result, the Company will be required to raise capital or seek other alternatives such as farm-out arrangements or the sale of properties in order to generate this capital.

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.

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

2. Basis of presentation and going concern (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, 2015, amended, were applicable, by the adoption of the new amended accounting standards outlined below. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2015.

(a) *Application of new and revised IFRS*

Effective October 1, 2015, there were no new or revised IFRS that were issued by the IASB that were adopted by the Company.

Esrey Energy Ltd.

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

3. Significant accounting policies (continued)

(b) Future accounting pronouncements

Certain pronouncements have been issued by the IASB that are mandatory for accounting years beginning after October 1, 2015 or later years.

Accounting standards issued but not yet effective:

- (i) Amended standard 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. Effective for annual periods commencing on or after January 1, 2017.
- (ii) Amended standard IAS 28, *Investments in Associate and Joint Venture*
The amendments to IAS 28 deal with the sale or contribution of assets between an investor and its associate or joint venture. Effective for annual periods commencing on or after January 1, 2017.
- (iii) Amended standard IAS 7, *Statement of Cash Flows*
These amendments to IAS 7 "Statement of Cash Flows" were issued to improve information provided to users of financial statements about an entity's changes in liabilities arising from financing activities. Effective for annual periods commencing on or after January 1, 2017.
- (iv) Amended standard IAS 12, *Income Taxes*
These amendments relate to the recognition of deferred tax assets for unrealized losses associated with debt instruments measured at fair value. Effective for annual periods commencing on or after January 1, 2017.
- (v) Amended standard IFRS 7, *Financial Instruments: Disclosures*
The amendments to IFRS 7 outline the disclosures required when initially applying IFRS 9 Financial Instruments. Effective date January 1, 2018.
- (vi) New standard IFRS 9, *Financial Instruments*
Replacement of IAS 39 *Financial Instruments: Recognition and Measurement*. Effective date January 1, 2018.
- (vii) New standard IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 provides guidance on how and when revenue from contracts with customers is to be recognized, along with new disclosure requirements in order to provide financial statement users with more informative and relevant information. Effective date January 1, 2018.
- (viii) New standard IFRS 16, *Leases*
Effective for annual periods commencing on or after January 1, 2019, this replaces existing lease accounting guidance. All leases will be required to be reported on the statement of financial position unless certain requirements for exclusion are met.

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

Esrey Energy Ltd.

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

4. Exploration and evaluation assets

	Papua New Guinea	Poland	United States	Bulgaria	Total
Cost					
Balance, September 30, 2014	\$ 47,655,276	\$ 1,477,745	\$ 2,649,697	\$ 7,570,435	\$ 59,353,153
Additions	217,110	-	33,502	-	250,612
Foreign exchange movement	2,037,918	-	505,557	-	2,543,475
Balance, September 30, 2015	\$ 49,910,304	\$ 1,477,745	\$ 3,188,756	\$ 7,570,435	\$ 62,147,240
Additions	64,611	-	-	-	64,611
Foreign exchange movement	(4,757,636)	-	-	-	(4,757,636)
Balance, March 31, 2016	\$ 45,217,279	\$ 1,477,745	\$ 3,188,756	\$ 7,570,435	\$ 57,454,215
Accumulated depletion and impairment losses					
Balance, September 30, 2014	\$ 43,922,511	\$ 1,477,745	\$ 94,414	\$ 7,570,435	\$ 53,065,105
Impairment	883,760	-	2,834,773	-	3,718,533
Foreign exchange movement	1,891,437	-	259,569	-	2,151,006
Balance, September 30, 2015	\$ 46,697,708	\$ 1,477,745	\$ 3,188,756	\$ 7,570,435	\$ 58,934,644
Impairment	-	-	-	-	-
Foreign exchange movement	(4,447,581)	-	-	-	(4,447,581)
Balance, March 31, 2016	\$ 42,250,127	\$ 1,477,745	\$ 3,188,756	\$ 7,570,435	\$ 54,487,063
Carrying amounts					
Carrying value at September 30, 2014	\$ 3,732,765	\$ -	\$ 2,555,283	\$ -	\$ 6,288,048
Carrying value at September 30, 2015	\$ 3,212,596	\$ -	\$ -	\$ -	\$ 3,212,596
Carrying value at March 31, 2016	\$ 2,967,152	\$ -	\$ -	\$ -	\$ 2,967,152

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) 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 satisfied the requirements of the second tranche of the farm-in agreement and ensured Heritage retained a minimum 40% interest in PPL 486 and PRL 13. In order for Heritage to retain its additional 40% interest, Heritage was required to drill and complete one exploration well in PPL 486 to a depth sufficient to test identified exploration targets.

On May 30, 2014, the Company's subsidiaries, Telemu, LNG Energy 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 would carry Telemu for 30% of Telemu's 20% interest in a second exploration well, in the event that a second well is drilled; and,
- Heritage would fund 100% of any joint operating costs incurred after the fulfillment of its obligations under the farm-in agreement in respect of the first exploration well until the earlier of the spud of the second exploration well or the 180th day following the date of testing and suspension or abandonment of the first exploration well.

On September 22, 2015, the Company was notified by Heritage that it would not be funding the drilling of the first exploration well on PPL 486 and therefore would not fulfill its final commitment under the farm-in agreement. Under the farm-in agreement, Heritage had the option to withdraw from PPL486 and PRL 13 licenses (the "Licenses") or to retain a 40% participating interest in the Licenses. Heritage advised the Company that it wishes to retain a 40% participating interest and as a result would re-transfer the other 40% participating interest in the Licenses back to Telemu and LNG PNG respectively. In accordance with the farm-in agreement, Telemu and LNG PNG assumed operatorship of the Licenses.

On September 29, 2015, Telemu and LNG PNG filed the necessary documents with the DPE to assume operatorship of PPL 486 and PRL 13 with immediate effect. On November 11, 2015, the necessary documents were filed with the DPE for the re-transfer of a 40% interest in PPL 486 and PRL 13 back to Telemu and LNG PNG, respectively. These re-transfers require Minister acknowledgement. As of the date of these financial statements, this acknowledgement has not been received.

Esrey Energy Ltd.

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 (continued)

(ii) Licenses

As at March 31, 2016, the Company holds a 50.55% working interest in Petroleum Prospecting License (“PPL”) 486 (formerly PPL 319), an 84.25% working interest in PPL 321, and a 60% working interest in Petroleum Retention License (“PRL”) 13 through permits received from the Minister of Petroleum and Energy for Papua New Guinea (“Minister”). In November 2014, PPLs 320 and 322 expired and were allowed to lapse.

PPL 486

PPL 486 was obtained in June 2014, and is the result of the top-filing of PPL 319. PPL 486 encompasses the same territory as PPL 319 did and has a six year term along with conditional work and expenditure commitments, to be no less than US\$30 million during the initial two years. The entire work program includes:

- Years 1 and 2: acquisition of a minimum of 50km of seismic and the drilling of the first exploration well;
- 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.

On September 11, 2015, the Company was informed that the Minister had approved a variance to move the requirement for 50km of seismic from Years 1 and 2 into Years 3 and 4, thereby bringing the total seismic requirement for Years 3 and 4 to 100km. As of May 17, 2016, the Company is in the process of requesting an additional variance to move the exploration well commitment to years 3 and 4.

Up until September 22, 2015, the Company had a 16.85% interest in PPL 486. Due to Heritage not fulfilling its final commitment under the farm-in agreement, Heritage advised the Company that it would re-transfer the other 40% participating interest in the licenses back to the Company’s subsidiary Telemu No. 18 Limited (“Telemu”). Therefore as at March 31, 2016, the Company has a 50.55% working interest in PPL 486.

PPL 321

The Company submitted an application to simultaneously surrender and top-file PPL 321 in August 2014, seeking a new 6 year license. PPL 321 expired in November 2014 and, as at May 17, 2016, the Company had not received a formal response from the Department of Petroleum and Energy (“DPE”) with regards to the top-filing application for PPL 321. On September 30, 2015, the Company had fully impaired the carrying amount of \$883,760 (1.9 million kina) with respect to PPL 321, given that the granting of the license renewal remains outstanding.

Esrey Energy Ltd.

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)

(b) Papua New Guinea (continued)

(ii) Licenses (continued)

PRL 13

The 20% interest in PRL 13 assumed that Heritage would fulfill its work commitments in the future and earn its full 80% farm-in (Note 4(a)(i)). Effective June 2014, the Company was granted a three year extension for PRL 13. This extension carried with it a commitment to acquire 10km of seismic in each of the first two years of the extension carrying a value of US\$2.8 million. Prior to the granting of the extension, the Company acquired approximately 20km of seismic on PRL 13. The seismic portion of this work commitment has been fulfilled.

Due to Heritage not fulfilling its final commitment under the farm-in agreement, on September 22, 2015, Heritage advised the Company that it would re-transfer the other 40% participating interest in the licenses back to the Company's subsidiary, LNG Energy (PNG) Limited ("LNG PNG"). Therefore as at March 31, 2016, the Company has a 60% working interest in PRL 13.

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

If the Company does not meet the expenditure or work program requirements outlined above, it may result in the loss of the licenses if variation applications are not approved by the DPE.

(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. The appeal was heard by the relevant court on November 23, 2015. On February 23, 2016, the court issued a ruling supporting the Company's position and remanded the case back to the Ministry of Energy for reconsideration using specific guidelines. The Ministry of Energy has the right of appeal. As of the date of these financial statements, a formal appeal has not been filed.

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\$7,570,435) has already been funded. These costs remain fully impaired as at March 31, 2016, as the ban on fracture stimulation created uncertainty with respect to the ultimate cost recovery of the Company's assets in Bulgaria.

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)

(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.

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).

As at March 31, 2016, 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.

(d) United States

(i) Sheridan County

In March 2015, the Company relinquished all of its oil and gas leases in Sheridan County and plugged and abandoned the Archer well (see Note 7). The costs associated with the oil and gas leases were impaired on 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, 2016.

(ii) Cascade County

On December 2014, the Company relinquished all of its oil and gas leases in Cascade County recognizing a full impairment of the costs associated with them.

5. Property, plant and equipment

Cost		
Balance, September 30, 2014	\$	130,981
Foreign exchange movement		302
Balance, September 30, 2015	\$	131,283
Disposals		(2,893)
Foreign exchange movement		(225)
Balance, March 31, 2016	\$	128,165
Accumulated depreciation and impairment losses		
Balance, September 30, 2014	\$	74,227
Depreciation		14,777
Foreign exchange movement		187
Balance, September 30, 2015	\$	89,191
Depreciation		6,185
Disposals		(919)
Foreign exchange movement		(135)
Balance, March 31, 2016	\$	94,322
Carrying amount		
Carrying value at September 30, 2014	\$	56,754
Carrying value at September 30, 2015	\$	42,092
Carrying value at March 31, 2016	\$	33,843

Esrey Energy Ltd.

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

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 2016, the Company's investment in Saponis was \$Nil.

(b) Joyce Podlasie LLC ("Joyce")

As at March 31, 2016, the Company, through its subsidiary, Kaynes, holds a 50% interest in 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 informed the Ministry of Geology that the Ilawa concession was being relinquished. As at March 31, 2016, the Company was in the process of exiting from all investments in Poland, including Joyce, which resulted in the Company's investment in Joyce remaining impaired in full.

(c) Maryani Podlasie, LLC ("Maryani")

As at March 31, 2016, 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, 2016, the Company was in the process of exiting from all investments in Poland, including Maryani, which resulted in the investment in Maryani remaining impaired in full.

(d) EERL Holdings (BVI) Ltd.

As at March 31, 2016, 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, 2016, the investment in EERL Holdings is \$191,198 (September 30, 2015 – \$124,857).

7. Decommissioning obligations

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

	March 31, 2016	September 30, 2015
Balance, beginning of the period	\$ -	\$ 55,876
Accretion expense	-	581
Settlement of decommissioning obligations	-	(50,362)
Foreign exchange	-	(6,095)
Total current decommissioning obligations	\$ -	\$ -

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. On March 2015, the Archer Well was plugged and abandoned, which resulted in a decommissioning obligation of \$Nil as at March 31, 2016.

Esrey Energy Ltd.

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

8. Loans payable

	March 31, 2016	September 30, 2015
Credit facilities	\$ -	\$ -
Loan payable	392,355	236,713
Loans payable	\$ 392,355	\$ 236,713

(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 of 10,943,396 common shares of Esrey at a deemed price of Cdn \$0.265 per common share.

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.

For the three and six months ended March 31, 2016, the interest expense related to the Credit Facilities was \$Nil. (Three and six months ended March 31, 2015 - \$69,026 and \$134,184 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, 2016, the Company has a loan payable due to EERL Holdings of \$392,355 (September 30, 2015 - \$236,713). The loan is non-interest bearing and has no fixed date of repayment.

Esrey Energy Ltd.

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

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 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.

(c) Share options

(i) Movements in share options during the period

The changes in share options during the six months ended March 31, 2016 and year ended September 30, 2015 were as follows:

	March 31, 2016		September 30, 2015	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Balance, beginning of the period	3,312,500	\$0.30	1,256,500	\$0.63
Granted	-	-	2,376,000	\$0.095
Forfeited	(25,750)	\$0.10	(320,000)	\$0.10
Balance, end of the period	3,286,750	\$0.30	3,312,500	\$0.30

Options granted and vested during the three and six months ended March 31, 2016, resulted in share-based payment expense of \$17,034 and \$34,464 respectively (three and six months ended March 31, 2015 - \$1,607 and \$13,590 respectively).

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

On March 1, 2016, 25,750 stock options that were granted on January 8, 2014 and April 2, 2015 to a former employee of the Company were forfeited following her resignation.

On August 24, 2015, 320,000 stock options that were granted on January 8, 2014 and April 2, 2015 to a former officer of the Company were forfeited following her resignation.

Esrey Energy Ltd.

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

9. Share capital (continued)

(c) Share options (continued)

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

On April 2, 2015, 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 at an exercise price of \$0.095. One third of these options vested immediately, one third on October 2, 2015, and one third will vest on April 2, 2016. The options expire on April 2, 2020.

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:

	April 2, 2015
Exercise price per option	\$0.095
Share price at date of grant	\$0.095
Expected life	5 years
Risk-free interest rate	0.73%
Dividend yield	Nil
Expected volatility	209.72%
Estimated fair value per option	\$0.09

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

The following table summarizes information about outstanding and exercisable options at March 31, 2016:

Options outstanding	Options exercisable	Exercise price	Expiry date
231,250	231,250	\$2.40	April 19, 2016
47,500	47,500	\$2.40	July 18, 2016
874,000	874,000	\$0.12	January 8, 2019
2,134,000	1,422,667	\$0.095	April 2, 2020
3,286,750	2,575,417		

The following table summarizes information about outstanding and exercisable options at September 30, 2015:

Options outstanding	Options exercisable	Exercise price	Expiry date
231,250	231,250	\$2.40	April 19, 2016
47,500	47,500	\$2.40	July 18, 2016
877,750	877,750	\$0.12	January 8, 2019
2,156,000	718,667	\$0.095	April 2, 2020**
3,312,500	1,875,167		

** As at December 31, 2015, the April 2, 2020 options outstanding were 2,156,000 and options exercisable were 1,437,333.

Esrey Energy Ltd.

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

9. Share capital (continued)

(c) *Share options (continued)*

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

During the three months ended March 31, 2016, no new options were issued, 25,750 options were cancelled, and no options vested. During the six months ended March 31, 2016, no new options were issued, 25,750 options (18,417 vested) were cancelled, and 718,666 options (including 14,667 that were cancelled) with an expiry date of April 2, 2020 vested. The weighted average remaining life of exercisable options is 3.17 years (September 30, 2015 – 3.35 years) and the weighted average exercise price of options exercisable at March 31, 2016 is \$0.30 (September 30, 2015 - \$0.30).

10. Non-controlling interest

The Company has an 84.25% interest in Telemu, an oil and gas company incorporated and operating in PNG. 15.75% of Telemu's equity and total comprehensive income is allocated to the non-controlling interest using the indirect method. The non-controlling interest is comprised of the following amounts:

Balance, September 30, 2014	\$	612,023
Distribution		(478,775)
Non-controlling interests' share of Telemu's loss		(208,690)
Foreign exchange translation		22,107
Balance, September 30, 2015	\$	(53,335)
Non-controlling interests' share of Telemu's loss		(37,240)
Foreign exchange translation		(38,168)
Balance, March 31, 2016	\$	(128,743)

11. Income tax recovery

In March 2016, the Company received a US\$946,950 tax refund. On October 2014, the Company received a US\$1,532,675 tax refund.

12. Discontinued operations

In March 2015, the Company 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,	
	2016	2015	2016	2015
Write-down of loan receivable	\$ -	\$ (123,356)	\$ -	\$ (211,214)
Foreign currency translation loss-Saponis		\$ (488,087)		\$ (488,087)
Loss from discontinued operations	\$ -	\$ (611,443)	\$ -	\$ (699,301)

Esrey Energy Ltd.

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

12. Discontinued operations (continued)

(b) *Statement of cash flows*

	Three months ended		Six months ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Advances to associate and joint ventures	\$ -	\$ (123,356)	\$ -	\$ (211,214)
Cash flows from discontinued operations	\$ -	\$ (123,356)	\$ -	\$ (211,214)

13. Income (Loss) per share

The weighted average number of ordinary shares for the purposes of diluted loss per share reconciles to the weighted average number of ordinary shares used in the calculation of basic loss per share as follows:

	Three months ended		Six months ended	
	March 31,		March 31,	
	2016	2015	2016	2015
Net income (loss) attributable to equity shareholders				
From continuing operations	\$(1,010,854)	\$ 252,290	\$ 231,004	\$ (820,452)
From discontinued operations	-	(611,443)	-	(699,301)
	\$(1,010,854)	\$ (359,153)	\$ 231,004	\$(1,519,753)
Weighted average number of ordinary shares	39,762,771	39,762,711	39,762,771	39,762,711
Diluted weighted average number of ordinary shares	39,762,771	39,762,711	39,762,771	39,762,711
Income (loss) per share - basic and diluted from:				
Continuing operations	\$ (0.03)	\$ 0.01	\$ 0.01	\$ (0.02)
Discontinued operations	\$ -	\$ (0.02)	\$ -	\$ (0.02)

As at March 31, 2016, the Company has 2,575,417 (September 30, 2015 – 1,875,167) potential ordinary shares that are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted income (loss) per share.

Esrey Energy Ltd.

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

14. Supplemental cash flow disclosure

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

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Amounts receivable and GST recoverable	\$ 1,341	\$ (168,582)	\$ (74,331)	\$ (167,433)
Prepaid expenses and other deposits	(8,260)	(40,340)	151,258	29,121
Accounts payable and accrued liabilities	26,882	572,094	105,235	553,704
Net changes in non-cash working capital items	\$ 19,963	\$ 363,172	\$ 182,162	\$ 415,392
Relating to:				
Operating activities	\$ 19,963	\$ 363,172	\$ 182,162	\$ 415,392
Investing activities	-	-	-	-
Net changes in non-cash working capital items	\$ 19,963	\$ 363,172	\$ 182,162	\$ 415,392

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 and expenses in the normal course of operations in connection with its related parties. Expenses have been measured at the exchange amount which is determined in a cost recovery basis.

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Consulting fees	\$ 10,000	\$ 12,000	\$ 22,000	\$ 24,000
	\$ 10,000	\$ 12,000	\$ 22,000	\$ 24,000

Amounts due to the related party are unsecured, non-interest bearing and due on demand. Accounts payable and accrued liabilities at March 31, 2016, included \$Nil (September 30, 2015 – \$Nil) which was due to the related party.

Esrey Energy Ltd.

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

16. Compensation of key management personnel

The remuneration of members of key management personnel during the three and six months ended March 31, 2016 and 2015 was as follows:

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Management fees				
Officers	\$ 96,067	\$ 133,570	\$ 213,865	\$ 262,801
Director fees				
Directors	6,000	6,000	12,000	12,000
Share-based payments <i>(i)</i>				
Directors and officers	11,414	1,323	22,975	11,189
	\$ 113,481	\$ 140,893	\$ 248,840	\$ 285,990

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

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three and six months ended March 31, 2016 and 2015. Accounts payable and accrued liabilities at March 31, 2016, include \$Nil of directors fees payable (September 30, 2015 - \$Nil). Accounts payable and accrued liabilities at March 31, 2016, included \$12,987 due to private companies controlled by an officer and director of the Company (September 30, 2015 - \$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, 2016 and September 30, 2015 are as follows:

	March 31, 2016				Total
	Papua New Guinea	Poland	United States	Canada	
Current assets	\$ 692,670	\$ 42,527	\$ 5,699,370	\$ 1,030,758	\$ 7,465,325
Exploration and evaluation assets	2,967,152	-	-	-	2,967,152
Property, plant and equipment	-	-	-	33,843	33,843
Investment in associate and joint ventures	-	-	-	191,098	191,098
	\$ 3,659,822	\$ 42,527	\$ 5,699,370	\$ 1,255,699	\$ 10,657,418

Esrey Energy Ltd.

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

17. Segmented information (continued)

(b) Geographic Information (continued)

	September 30, 2015				
	Papua New Guinea	Poland	United States	Canada	Total
Current assets	\$ 244,948	\$ 25,697	\$ 4,737,632	\$ 2,101,283	\$ 7,109,560
Exploration and evaluation assets	3,212,596	-	-	-	3,212,596
Property, plant and equipment	2,428	280	-	39,384	42,092
Investment in associate and joint ventures	-	-	-	124,857	124,857
	\$ 3,459,972	\$ 25,977	\$ 4,737,632	\$ 2,265,524	\$ 10,489,105

The Company's expenses and income by geographic area for the three and six months ended March 31, 2016 and 2015, are as follows:

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

	Three months ended March 31, 2015				
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from Continuing operations	\$ 348,346	\$ 9,488	\$ (527,908)	\$ 430,791	\$ 260,717
Discontinued operations	-	(611,443)	-	-	(611,443)
Net income (loss)	\$ 348,346	\$ (601,955)	\$ (527,908)	\$ 430,791	\$ (350,726)
Attributable to					
Non-controlling interest	8,427	-	-	-	8,427
Net loss attributable to equity shareholders of the Company	339,919	(601,955)	(527,908)	430,791	(359,153)
	\$ 348,346	\$ (601,955)	\$ (527,908)	\$ 430,791	\$ (350,726)

Esrey Energy Ltd.

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

17. Segmented information (continued)

(c) *Geographic Information (continued)*

Six months ended March 31, 2016					
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from					
Continuing operations	\$ (297,728)	\$ (80,196)	\$ 1,193,076	\$ (621,388)	\$ 193,764
Discontinued operations	-	-	-	-	-
Net income (loss)	\$ (297,728)	\$ (80,196)	\$ 1,193,076	\$ (621,388)	\$ 193,764
Attributable to					
Non-controlling interest	\$ (37,240)	\$ -	\$ -	\$ -	\$ (37,240)
Equity shareholders of the Company	(260,488)	(80,196)	1,193,076	(621,388)	231,004
	\$ (297,728)	\$ (80,196)	\$ 1,193,076	\$ (621,388)	\$ 193,764
Six months ended March 31, 2015					
	Papua New Guinea	Poland	United States	Canada	Total
Net income (loss) from					
Continuing operations	\$ 492,586	\$ (52,006)	\$(1,687,616)	\$ 442,121	\$ (804,915)
Discontinued operations	-	(699,301)	-	-	(699,301)
Net income (loss)	\$ 492,586	\$ (751,307)	\$(1,687,616)	\$ 442,121	\$(1,504,216)
Attributable to					
Non-controlling interest	15,537	-	-	-	15,537
Net loss attributable to equity shareholders of the Company	477,049	(751,307)	(1,687,616)	442,121	(1,519,753)
	\$ 492,586	\$ (751,307)	\$(1,687,616)	\$ 442,121	\$(1,504,216)

18. Capital management

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

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

Esrey Energy Ltd.

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

18. Capital management (continued)

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

19. Financial instruments

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

(a) Fair value of financial instruments

(i) Fair value estimation of financial instruments

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

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

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

(b) Financial risk management

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

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

(i) Credit risk

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

Esrey Energy Ltd.

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

19. Financial instruments (continued)

(b) Financial risk management (continued)

(ii) Liquidity and funding risk

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

Funding risk is the risk that the Company may not be able to raise equity financing in a timely manner and on terms acceptable to management. There is no assurance that such financing will be available when, and if, the Company requires additional equity financing (Note 2c).

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The following table summarizes the Company's significant remaining contractual maturities for financial liabilities at March 31, 2016 and September 30, 2015.

March 31, 2016				
	Less than 3 months	3 - 12 months	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 103,159	\$ 87,761	\$ -	\$ 190,920
Loans payable	392,355	-	-	392,355
Total	\$ 495,514	\$ 87,761	\$ -	\$ 583,275

September 30, 2015				
	Less than 3 months	3 - 12 months	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 25,708	\$ 159,607	\$ -	\$ 185,315
Loans payable	236,713	-	-	236,713
Total	\$ 262,421	\$ 159,607	\$ -	\$ 422,028

Esrey Energy Ltd.

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

19. Financial instruments (continued)

(c) *Financial risk management (continued)*

(iii) *Market risk*

The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

(a) *Interest rate risk*

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. The Company has minimal exposure to interest rate fluctuations on its cash and cash equivalent balances due to current low market interest rates.

(b) *Foreign currency risk*

Some of the Company's exploration expenditures, certain acquisition costs and other operating expenses are denominated in the US dollar, Papua New Guinea kina, Polish zloty and European Euro. The Company's exposure to foreign currency risk arises primarily on fluctuations between the Canadian dollar and the US dollar, Papua New Guinea kina, Polish zloty and European Euro. The Company has not entered into any derivative instruments to manage foreign exchange fluctuations.

20. Subsequent Events

On April 2, 2016, the remaining one third of options granted on April 2, 2015 vested. On April 19, 2016, 231,250 options outstanding and exercisable at \$2.40/share expired.