



**(Formerly LNG Energy Ltd.)**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**For the Three and Nine Months Ended June 30, 2014 and 2013**

**(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.

(Formerly LNG Energy Ltd.)

## UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(in Canadian dollars)	June 30, 2014	As at September 30, 2013 Restated (Note 3a(iii)a)	October 1, 2012 Restated (Note 3a(iii)a)
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 8,535,849	\$ 7,039,375	\$ 225,665
Amounts receivable	86,759	388,863	115,477
Prepaid expenses and other deposits	413,349	422,963	424,436
	<b>9,035,957</b>	<b>7,851,201</b>	<b>765,578</b>
Exploration and evaluation assets (Note 6)	7,463,481	9,128,125	9,970,457
Property, plant and equipment (Note 7)	61,474	144,785	194,732
Investment in joint ventures (Note 8)	10,190,076	6,816,376	13,635,433
Restricted cash (Note 6)	-	1,554,113	-
<b>Total Assets</b>	<b>\$ 26,750,988</b>	<b>\$ 25,494,600</b>	<b>\$ 24,566,200</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 257,835	\$ 700,041	\$ 538,304
Decommissioning obligations (Note 9)	52,791	52,965	-
Loans payable (Note 10)	3,613,692	181,899	-
	<b>3,924,318</b>	<b>934,905</b>	<b>538,304</b>
Loans payable (Note 10)	-	5,752,725	5,122,848
<b>Total Liabilities</b>	<b>3,924,318</b>	<b>6,687,630</b>	<b>5,661,152</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 11)	110,392,414	106,790,751	103,211,241
Contributed surplus (Note 11c)	12,836,146	12,729,232	12,397,169
Accumulated other comprehensive income	7,478,350	6,738,862	7,454,837
Non-controlling interest (Note 12)	597,380	572,530	-
Deficit	(108,477,620)	(108,024,405)	(104,158,199)
<b>Total Shareholders' Equity</b>	<b>22,826,670</b>	<b>18,806,970</b>	<b>18,905,048</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 26,750,988</b>	<b>\$ 25,494,600</b>	<b>\$ 24,566,200</b>

Going Concern (Note 2c); Subsequent events (Note 18)

These unaudited condensed consolidated interim financial statements were approved for issue by the Board of Directors on August 20, 2014 and are signed on its behalf by:

(Signed) "Paul Larkin"  
Director

(Signed) "David Cohen"  
Director

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

# Esrey Energy Ltd.

(Formerly LNG Energy Ltd.)

## UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	For the three months ended June 30,		For the nine months ended June 30,	
	2014	2013 Restated (Note 3a(iii)b)	2014	2013 Restated (Note 3a(iii)b)
(in Canadian dollars)				
<b>Expenses:</b>				
Depreciation (Note 7)	\$ 4,315	\$ 7,816	\$ 32,851	\$ 25,525
General and administrative expenses	148,123	216,545	483,572	806,227
Professional fees	249,288	163,857	928,264	771,052
Share based payments (Note 11c)	29,480	1,561	106,350	101,580
Travel and business development	29,923	53,104	132,797	157,088
Exploration (Note 6)	4,107	-	1,046,394	-
(Gain) loss on disposal of fixed assets	(355)	-	36,914	-
(Write-up) write-down of exploration and evaluation assets (Note 6)	(383)	1,342,556	175,340	1,342,556
	<b>(464,498)</b>	<b>(1,785,439)</b>	<b>(2,942,482)</b>	<b>(3,204,028)</b>
<b>Other income (expenses):</b>				
Accretion expense (Note 9)	(437)	2,173	(1,311)	-
Interest expense (Note 10a)	(70,297)	(81,807)	(285,080)	(330,375)
Miscellaneous income	532	-	3,599	-
Share of joint ventures' income (loss) (Note 8)	(439,128)	(59,158)	3,333,662	(120,282)
Gain on acquisition of interest in joint venture	10,140	-	1,690,213	-
Impairment of investment in joint venture (Note 8)	(2,119,235)	-	(2,119,235)	-
Loss on settlement of debt (Note 10)	(704,730)	-	(704,730)	-
Write-down of advances	-	1,383	-	-
Foreign exchange (loss) gain	(236,702)	224,817	132,952	316,049
Interest income	2,482	(62,913)	10,468	9,467
	<b>(3,557,375)</b>	<b>24,495</b>	<b>2,060,538</b>	<b>(125,141)</b>
Loss for the period before tax	<b>(4,021,873)</b>	<b>(1,760,944)</b>	<b>(881,944)</b>	<b>(3,329,169)</b>
Income tax recovery (expense)	412,794	(13)	396,511	(2,139)
<b>Net loss for the period</b>	<b>\$ (3,609,079)</b>	<b>\$ (1,760,957)</b>	<b>\$ (485,433)</b>	<b>\$ (3,331,308)</b>
Attributable to:				
Non-controlling interest (Note 12)	(2,753)	(528,700)	(32,218)	(652,985)
Equity shareholders of the Company	(3,606,326)	(1,232,257)	(453,215)	(2,678,323)
	<b>\$ (3,609,079)</b>	<b>\$ (1,760,957)</b>	<b>\$ (485,433)</b>	<b>\$ (3,331,308)</b>
<b>Other comprehensive income (loss):</b>				
Foreign currency translation gain attributed to non-controlling interest	56,486	134,474	57,068	287,688
Foreign currency translation gain (loss) for equity shareholders of the Company	85,691	(214,846)	739,488	1,555,124
<b>Comprehensive (loss) income for the period</b>	<b>\$ (3,466,902)</b>	<b>\$ (1,841,329)</b>	<b>\$ 311,123</b>	<b>\$ (1,488,496)</b>
<b>Loss per share: (Note 11b)</b>				
<b>Basic and Diluted</b>	<b>\$ (0.10)</b>	<b>\$ (0.07)</b>	<b>\$ (0.01)</b>	<b>\$ (0.16)</b>

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

# Esrey Energy Ltd.

(Formerly LNG Energy Ltd.)

## UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in Canadian dollars, except for share amounts)	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income	Non-controlling interest	Deficit	Total shareholders' equity
<b>Balance as previously reported, October 1, 2012</b>	<b>16,935,968</b>	<b>\$ 103,211,241</b>	<b>\$ 12,397,169</b>	<b>\$ 7,455,396</b>	<b>\$ -</b>	<b>\$ (104,172,261)</b>	<b>\$ 18,891,545</b>
Adjustments (Note 3a(iii)a)	-	-	-	(559)	-	14,062	13,503
<b>Adjusted balance, October 1, 2012</b>	<b>16,935,968</b>	<b>\$ 103,211,241</b>	<b>\$ 12,397,169</b>	<b>\$ 7,454,837</b>	<b>\$ -</b>	<b>\$ (104,158,199)</b>	<b>\$ 18,905,048</b>
Share based payments	-	-	161,863	-	-	-	161,863
Non-controlling interest	-	-	-	-	1,293,640	-	1,293,640
Net loss for the period	-	-	-	-	-	(3,482,729)	(3,482,729)
Foreign currency translation	-	-	-	665,605	-	-	665,605
Adjustments (Note 3a(iii)a)	-	-	-	889,519	-	(1,494,193)	(604,674)
<b>Adjusted balance, June 30, 2013</b>	<b>16,935,968</b>	<b>\$ 103,211,241</b>	<b>\$ 12,559,032</b>	<b>\$ 9,009,961</b>	<b>\$ 1,293,640</b>	<b>\$ (109,135,121)</b>	<b>\$ 16,938,753</b>
Share based payments	-	-	19,200	-	-	-	19,200
Shares issued on the acquisition of Enterprise (Note 4)	11,931,702	3,579,510	151,000	-	-	-	3,730,510
Non-controlling interest	-	-	-	-	(376,732)	-	(376,732)
Net loss for the period	-	-	-	-	(244,387)	(453,681)	(698,068)
Foreign currency translation	-	-	-	(1,450,982)	(99,991)	-	(1,550,973)
Adjustments (Note 3a(iii)a)	-	-	-	(820,117)	-	1,564,397	744,280
<b>Adjusted balance, September 30, 2013</b>	<b>28,867,670</b>	<b>\$ 106,790,751</b>	<b>\$ 12,729,232</b>	<b>\$ 6,738,862</b>	<b>\$ 572,530</b>	<b>\$ (108,024,405)</b>	<b>\$ 18,806,970</b>
Shares issued on the settlement of debt (Note 11a)	10,943,396	3,611,321	-	-	-	-	3,611,321
Share based payments (Note 11c)	-	-	106,914	-	-	-	106,914
Share consolidation payments (Note 11a)	(48,295)	(9,658)	-	-	-	-	(9,658)
Net loss for the period	-	-	-	-	(32,218)	(453,215)	(485,433)
Foreign currency translation	-	-	-	739,488	57,068	-	796,556
<b>Balance, June 30, 2014</b>	<b>39,762,771</b>	<b>\$ 110,392,414</b>	<b>\$ 12,836,146</b>	<b>\$ 7,478,350</b>	<b>\$ 597,380</b>	<b>\$ (108,477,620)</b>	<b>\$ 22,826,670</b>

On November 18, 2013, the Company enacted a twenty for one share consolidation. All current comparative references to the number of shares, options, weighted average number of common shares and loss per share have been restated to the twenty for one share consolidation.

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

# Esrey Energy Ltd.

(Formerly LNG Energy Ltd.)

## UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(in Canadian dollars)	Three months ended June 30,		Nine months ended June 30,	
	2014	2013 (Note 3a(iii)c)	2014	2013 (Note 3a(iii)c)
<b>Operating activities:</b>				
Net loss	\$ (3,609,079)	\$ (1,760,957)	\$ (485,433)	\$ (3,331,308)
Items not affecting cash:				
Depreciation (Note 7)	4,315	7,816	32,851	25,525
Accretion expense (Note 9)	437	(2,173)	1,311	-
Share based payments (Note 11c)	29,480	1,561	106,350	101,580
Interest expense (Note 10a)	70,297	(18,450)	285,080	230,118
Interest income	(2,482)	-	(10,468)	-
Income tax expense	(412,794)	13	(396,511)	2,139
Write-down of advances	(3,549)	(1,383)	-	-
Loss on disposal of fixed assets (Note 7)	(428)	-	36,914	-
Write-down of E&E assets (Note 6)	(383)	1,342,556	175,340	1,342,556
Impairment of investment in joint ventures (Note 8)	2,119,235	-	2,119,235	-
Foreign exchange (loss) gain	163,676	(224,817)	(132,952)	(316,049)
Share of (income) loss of joint ventures	439,129	59,158	(3,333,661)	120,282
Gain on acquisition of additional interest in joint venture	(10,140)	-	(1,690,213)	-
Loss on issuance of shares	704,730	-	704,730	-
	(507,556)	(596,676)	(2,587,427)	(1,825,157)
Changes in non-cash working capital (Note 14)	(145,546)	(661,796)	(514,248)	(92,133)
Interest paid	(4)	-	(560)	-
Interest received	1,400	-	9,135	-
Realized foreign exchange gain	114,781	-	108,642	-
Taxes received	419,923	-	396,511	-
	(117,002)	(1,258,472)	(2,587,947)	(1,917,290)
<b>Financing activities:</b>				
Share consolidation payments	-	-	(9,658)	-
Proceeds from sale of Telemu shares by LNG BC	-	-	-	196,920
Proceeds from issuance of Telemu shares	-	-	-	1,446,377
Proceeds from loan (Note 10)	-	-	-	2,295,103
Repayment of loan (Note 10)	-	(2,166,353)	-	(2,166,353)
Proceeds from farm-in	-	7,522,079	-	7,522,079
	-	5,355,726	(9,658)	9,294,126
<b>Investing activities:</b>				
Exploration and evaluation expenditures (Note 6)	(65,518)	(676,209)	(291,380)	(3,983,936)
Advances to joint ventures	(285,922)	-	(589,681)	-
Changes in restricted cash balances	-	-	1,680,065	-
Proceeds from adjustment to Papua New Guinea farm-in agreement	2,710,250	-	2,710,250	-
Proceeds from sale of PP&E	-	-	29,667	-
PP&E additions (Note 7)	-	-	(13,882)	-
Change in non-cash working capital (Note 14)	(3,202)	(1,027,302)	333,233	196,897
	2,355,608	(1,703,511)	3,858,272	(3,787,039)
Foreign exchange effect on cash and cash equivalents	(97,308)	47,829	235,807	54,222
<b>Net decrease in cash and cash equivalents</b>	<b>2,141,298</b>	<b>2,441,572</b>	<b>1,496,474</b>	<b>3,644,019</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>6,394,551</b>	<b>1,428,112</b>	<b>7,039,375</b>	<b>225,665</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 8,535,849</b>	<b>\$ 3,869,684</b>	<b>\$ 8,535,849</b>	<b>\$ 3,869,684</b>

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

# Esrey Energy Ltd.

## (Formerly LNG Energy Ltd.)

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of and for the three and nine months ended June 30, 2014 and 2013  
(in Canadian dollars, except otherwise stated)

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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, Poland, United States 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

#### 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 are in accordance with International Accounting Standard ("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 August 20, 2014.

#### 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 unaudited condensed consolidated interim 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, 2013.

#### 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.

# Esrey Energy Ltd.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of and for the three and nine months ended June 30, 2014 and 2013  
(in Canadian dollars, except otherwise stated)

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### 2. BASIS OF PRESENTATION (continued)

#### c) Going concern (continued)

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

Even if adequate funds are available, there is no guarantee that the Company will meet the work commitments dictated by the terms of the concessions (Note 6). 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 accompanying 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, 2013, except for the application of new and revised IFRSs as noted 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, 2013.

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

Effective October 1, 2013, the Company adopted the following new and revised IFRSs that were issued by the IASB.

##### (i) *IFRS 7 Financial Instruments: Disclosures*

The amendment to IFRS 7 enhances the disclosure required when offsetting financial assets and liabilities. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.



# Esrey Energy Ltd.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of and for the three and nine months ended June 30, 2014 and 2013  
(in Canadian dollars, except otherwise stated)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### (ii) IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation — Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. Whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities, it will be consolidated in accordance with IFRS 10. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

##### (iii) IFRS 11 Joint Arrangements

IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. IFRS 11 differentiates between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets.

Joint ventures are accounted for using the equity method (proportionate consolidation is not permitted by IFRS 11).

Parties to a joint operation account for their share of assets, liabilities, revenues and expenses in accordance with their contractual rights and obligations.

The adoption of IFRS 11 had the following effect on the accounting for the Company's joint arrangements:

- (i) The new definition of joint control has not resulted in a change in the recognition and non-recognition of the Company's arrangements with other parties.
- (ii) The Company's joint arrangements previously classified as jointly controlled entities under IAS 31 have been reclassified as joint ventures under IFRS 11.

The Company's joint arrangements previously classified as jointly controlled entities under IAS 31 that were previously accounted for using the proportionate consolidation method have now been restated and accounted for using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures. This change has had an effect on the Company's asset and liabilities, expenses, other income and other comprehensive loss, but has had no impact on the Company's cash flows and basic or diluted earnings per share.

The application of IFRS 11 was applied retrospectively as at October 1, 2012 and the effects on the comparative unaudited condensed consolidated interim statements of comprehensive income (loss), comparative unaudited condensed consolidated interim statements of financial position and comparative unaudited condensed consolidated interim statements of cash flows, have been outlined below.

# Esrey Energy Ltd.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iii) IFRS 11 Joint Arrangements (continued)

a. Impact on condensed consolidated interim statement of financial position

	October 1, 2012		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
Cash and cash equivalents	798,327	(572,662)	225,665
Amounts receivable	337,149	(221,672)	115,477
Prepaid expenses and other deposits	452,267	(27,831)	424,436
Exploration and evaluation assets	23,217,868	(13,247,411)	9,970,457
Investment in joint ventures	-	13,635,433	13,635,433
<b>Total assets</b>	<b>25,000,343</b>	<b>(434,143)</b>	<b>24,566,200</b>
Accounts payable and accrued liabilities	947,764	(409,460)	538,304
Decommissioning obligations	38,186	(38,186)	-
<b>Total liabilities</b>	<b>6,108,798</b>	<b>(447,646)</b>	<b>5,661,152</b>
Accumulated other comprehensive income	7,455,396	(559)	7,454,837
Deficit	(104,172,261)	14,062	(104,158,199)
<b>Total shareholders' equity</b>	<b>18,891,545</b>	<b>13,503</b>	<b>18,905,048</b>

# Esrey Energy Ltd.

## (Formerly LNG Energy Ltd.)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of and for the three and nine months ended June 30, 2014 and 2013  
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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iii) IFRS 11 Joint Arrangements (continued)

a. Impact on condensed consolidated interim statement of financial position (continued)

	<b>June 30, 2013</b>		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
Cash and cash equivalents	4,278,272	(408,588)	3,869,684
Amounts receivable	264,361	(55,749)	208,612
Prepaid expenses and other deposits	378,065	(23,181)	354,884
Exploration and evaluation assets	19,455,431	(13,978,744)	5,476,687
Investment in joint ventures	-	13,509,198	13,509,198
<b>Total assets</b>	<b>24,542,223</b>	<b>(957,064)</b>	<b>23,585,159</b>
Accounts payable and accrued liabilities	999,605	(309,492)	690,113
Decommissioning obligations	56,402	(56,402)	-
<b>Total liabilities</b>	<b>7,012,299</b>	<b>(365,894)</b>	<b>6,646,405</b>
Accumulated other comprehensive income	8,121,001	888,960	9,009,961
Deficit	(107,654,990)	(1,480,131)	(109,135,121)
<b>Total shareholder's equity</b>	<b>17,529,924</b>	<b>(591,171)</b>	<b>16,938,753</b>
	<b>September 30, 2013</b>		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
Cash and cash equivalents	7,477,341	(437,966)	7,039,375
Amounts receivable	542,407	(153,544)	388,863
Prepaid expenses and other deposits	450,448	(27,485)	422,963
Exploration and evaluation assets	15,538,612	(6,410,487)	9,128,125
Investment in joint ventures	-	6,816,376	6,816,376
<b>Total assets</b>	<b>25,707,706</b>	<b>(213,106)</b>	<b>25,494,600</b>
Accounts payable and accrued liabilities	1,008,005	(307,964)	700,041
Decommissioning obligations	111,216	(58,251)	52,965
<b>Total liabilities</b>	<b>7,053,845</b>	<b>(366,215)</b>	<b>6,687,630</b>
Accumulated other comprehensive income	6,670,019	68,843	6,738,862
Deficit	(108,108,671)	84,266	(108,024,405)
<b>Total shareholders' equity</b>	<b>18,653,861</b>	<b>153,109</b>	<b>18,806,970</b>

# Esrey Energy Ltd.

## (Formerly LNG Energy Ltd.)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iii) IFRS 11 Joint Arrangements (continued)

b. Impact on unaudited condensed consolidated interim statement of comprehensive income (loss)

	For the three months ended June 30, 2013		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
General and administrative expenses	(260,437)	43,892	(216,545)
Professional fees	(216,133)	52,276	(163,857)
Accretion expense	(16,409)	18,582	2,173
Share of loss of joint ventures	-	(59,158)	(59,158)
Foreign exchange gain	194,958	29,859	224,817
Interest income	114	(63,027)	(62,913)
Income tax	-	(13)	(13)
Net loss	(1,783,368)	22,411	(1,760,957)
Foreign currency translation gain for equity shareholders of the Company	(653,710)	438,864	(214,846)
	For the nine months ended June 30, 2013		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
General and administrative expenses	(924,148)	117,921	(806,227)
Professional fees	(894,669)	123,617	(771,052)
Accretion expense	(18,582)	18,582	-
Share of loss of joint ventures	-	(120,282)	(120,282)
Foreign exchange gain	286,675	29,374	316,049
Interest income	25,119	(15,652)	9,467
Income tax	-	(2,139)	(2,139)
Net loss	(3,482,729)	151,421	(3,331,308)
Foreign currency translation gain for equity shareholders of the Company	377,917	1,177,207	1,555,124

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(iii) IFRS 11 Joint Arrangements (continued)

c. Impact on condensed consolidated interim statement of cash flows

	For the three months ended		
	June 30, 2013		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
Net loss	(1,783,368)	22,411	(1,760,957)
Accretion expense	16,409	(18,582)	(2,173)
Income tax expense	-	13	13
Foreign exchange gain	(143,246)	(81,571)	(224,817)
Share of loss of joint ventures	-	59,158	59,158
Changes in non-cash working capital (operating)	(977,072)	315,276	(661,796)
Changes in non-cash working capital (investing)	(686,515)	(340,787)	(1,027,302)
Foreign exchange effect on cash and cash equivalents	15,575	32,254	47,829
Net increase in cash and cash equivalents	2,453,400	(11,828)	2,441,572
Cash and cash equivalents, beginning of period	1,824,872	(396,760)	1,428,112
Cash and cash equivalents, end of period	4,278,272	(408,588)	3,869,684

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### (iii) IFRS 11 Joint Arrangements (continued)

##### c. Impact on condensed consolidated interim statement of cash flows (continued)

	For the nine months ended June 30, 2013		
	Prior to retrospective application of new accounting policy	Effect of retrospective application	Subsequent to retrospective application of new accounting policy
Net loss	(3,482,729)	151,421	(3,331,308)
Accretion expense	18,582	(18,582)	-
Income tax expense	-	2,139	2,139
Foreign exchange gain	(286,675)	(29,374)	(316,049)
Share of loss of joint ventures	-	120,282	120,282
Changes in non-cash working capital (operating)	(338,854)	246,721	(92,133)
Changes in non-cash working capital (investing)	537,684	(340,787)	196,897
Foreign exchange effect on cash and cash equivalents	21,968	32,254	54,222
Net increase in cash and cash equivalents	3,479,945	164,074	3,644,019
Cash and cash equivalents, beginning of period	798,327	(572,662)	225,665
Cash and cash equivalents, end of period	4,278,272	(408,588)	3,869,684

##### (iv) IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. As the new standard affects only disclosure, there is no effect on the Company's financial position or performance.

# Esrey Energy Ltd.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The main provisions of IFRS 13 include defining fair value, setting out a single standard framework for measuring fair value, and specifying certain disclosure requirements about fair value measurements. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years. In addition, IFRS 13 is to be applied prospectively and therefore comparative disclosures have not been presented.

##### (vi) Amended Standard IAS 1 Presentation of Financial Statements

The amendments to IAS 1 pertain to the number of comparative financial statements required in different circumstances and disclosure required in the statement of comprehensive loss. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

##### (vii) Amended Standard IAS 16 Property, Plant and Equipment

The amendments to IAS 16 clarify when spare parts, stand-by equipment and servicing equipment are to be classified as inventory or property, plant and equipment. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

##### (viii) Amended Standard IAS 19 Employee Benefits

IAS 19 outlines the accounting treatment and required disclosures for employee benefits. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

##### (ix) Amended Standard IAS 27 Separate Financial Statements

IAS 27 outlines the accounting principles to be applied with regards to investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate, non-consolidated, financial statements. The previous standard was titled IAS 27 Consolidated and Separate Financial Statements. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years and is not expected to affect the accounting for future transactions or arrangements.

##### (x) IAS 28 Investments in Associates and Joint Ventures

IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12. The impact that the adoption of this standard has had on the Company's financial statements has been discussed in Note 3(c) of these unaudited condensed consolidated interim financial statements.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

##### *(xi) Amended Standard IAS 32 Financial Instruments: Presentation*

The amendments to IAS 32 clarify the treatment of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction. The application of this IFRS did not have any material impact on the amounts reported for the current or prior years but may affect the accounting for future transactions or arrangements.

#### 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.

##### *(i) Effective for annual periods beginning on or after October 1, 2014*

##### ***IFRS 2 Share-based Payment***

The amendment to IFRS 2 re-defines the definition of “vesting condition.”

##### ***IFRS 3 Business Combinations***

The amendments to IFRS 3 provide further clarification on the accounting treatment for contingent consideration, and provides a scope exception for joint ventures.

##### ***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.

##### ***IFRS 13 Fair Value Measurement***

The amendment to IFRS 13 provides further details on the scope of the portfolio exception.

##### ***IAS 16 Property, Plant and Equipment***

The amendment to IAS 16 deals with the proportionate restatement of accumulated depreciation on revaluation.

##### ***IAS 24 Related Party Disclosures***

The amendment to IAS 24 deals with the disclosure required for management entities.

##### ***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.



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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, 2014 (continued)*

##### **IAS 38 Intangible Assets**

The amendment to IAS 38 deals with the proportionate restatement of accumulated depreciation on revaluation.

(ii) *Effective for annual periods beginning on or after October 1, 2015*

##### **IFRS 7 Financial Instruments Disclosures**

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

(iii) *Effective for annual periods beginning on or after October 1, 2017*

##### **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.

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

##### **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 Financial instruments: recognition and measurement, derecognition of financial assets and financial liabilities. The mandatory effective date has been removed from the standard and will only be replaced when all sections of the standard have been completed.

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.

#### c) Details of the group

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of subsidiaries are included in the unaudited condensed consolidated interim financial statements from the date that control commences until the date that control ceases. All intercompany balances and transactions have been eliminated upon consolidation. Refer to Note 5(a) for further details on the Company's subsidiaries.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### c) Details of the group

##### (ii) Joint Arrangements

Many of the Company's oil and natural gas activities involve joint ventures. Joint ventures are accounted for using the equity method (Note 3(a)(iii)). Refer to Note 5(b) for further details on the Company's joint arrangements.

### 4. ACQUISITION

#### Enterprise Energy Resources Ltd.

On August 20, 2013, the Company acquired all of the issued and outstanding shares of Enterprise Energy Resources Ltd. ("Enterprise") in exchange for 11,931,702 common shares of the Company. Enterprise was a Canadian exploration and development company with oil and gas properties in Montana, USA and Papua New Guinea. Under the terms of the acquisition, Enterprise's stock options continued in accordance with the terms of the plan of arrangement and will be exercisable into Esrey common shares. If all such stock options are exercised, an additional 703,750 common shares of Esrey would be issuable.

The allocation of the purchase price of Enterprise acquired was as follows:

<i>Purchase price</i>	
Esrey shares issued	11,931,702
Share price	\$ 0.30
	<b>\$ 3,579,510</b>
Stock options issued	151,000
<b>Total consideration</b>	<b>\$ 3,730,510</b>
<i>Fair value of assets and liabilities purchased</i>	
Cash and cash equivalents	\$ 3,763,688
Restricted cash	1,554,113
Other current assets	219,019
Other current liabilities	(105,262)
Exploration and evaluation assets	4,132,983
Non-controlling interest	683,082
<b>Total net assets acquired</b>	<b>\$ 10,247,623</b>
<b>Gain on acquisition of Enterprise</b>	<b>\$ 6,517,113</b>

# Esrey Energy Ltd.

## (Formerly LNG Energy Ltd.)

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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#### 5. SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

##### a) Subsidiaries

Details of the Company's subsidiaries at June 30, 2014 are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			June 30, 2014	September 30, 2013
LNG Energy US Inc. ("LNG US")	Holding Company	Delaware	100%	100%
LNG Energy (BC) Ltd. ("LNG BC")	Holding Company	British Columbia	100%	100%
LNG Exploration Ltd. ("LNG Exploration") formerly known as Enterprise Energy Resources Ltd.	Holding Company	British Columbia	100%	100%
Kunagu Real Estate S.A. ("Kunagu")	Holding Company	Panama	100%	100%
Kaynes Capital S.a.r.l. ("Kaynes")	Holding Company	Luxembourg	100%	100%
LNG Energy (PNG) Limited ("LNG PNG")	Operating Company	Papua New Guinea	100%	100%
LNG Energy No. 2 Limited ("LNG No. 2")	Operating Company	Papua New Guinea	100%	100%
Basin Tishomingo Holdings Inc. ("BTH")	Holding Company	Delaware	100%	100%
BWB Exploration LLC ("BWB")	Operating Company	Delaware	100%	100%
EERL (BVI) Ltd. ("EERL BVI")	Holding Company	British Virgin Islands	100%	100%
Evolution Petroleum Corporation ("EPC")	Holding Company	British Virgin Islands	100%	100%
Evolution Oil Group LLC ("EVO")	Operating Company	Delaware	100%	100%
Enterprise Bakken Holdings Ltd. ("EER Bakken")	Holding Company	Barbados	100%	100%
MPR Finance S.a.r.l. ("MPR")	Holding Company	Luxembourg	100%	100%
FOZ Finance S.a.r.l. ("FOZ")	Holding Company	Luxembourg	100%	100%
EERL Energy Inc. ("EERL Energy") (i)	General Partner	British Columbia	-	100%
EERL Energy Limited Partnership ("EERL Partnership") (i)	Limited Partner	British Columbia	-	100%
Telemu No. 18 Limited ("Telemu") (ii)	Operating Company	Papua New Guinea	84.25%	84.25%

(i) Dissolved effective November 4, 2013

(ii) LNG BC, along with EERL Holdings (BVI) Ltd., collectively own an 84.25% interest in Telemu.

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#### 5. SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)

##### (b) Joint ventures

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			June 30, 2014	September 30, 2013
Joyce Podlasie LLC ("Joyce")	Holding Company	Delaware	50%	50%
Maryani Podlasie LLC ("Maryani")	Holding Company	Delaware	50%	50%
Joyce Investments Sp. z.o.o. ("Joyce Investments")	Operating Company	Poland	50%	50%
Maryani Investments Sp z.o.o. ("Maryani Investments")	Operating Company	Poland	50%	50%
EERL Holdings (BVI) Ltd. ("EERL Holdings")	Holding Company	British Virgin Islands	50%	50%
Saponis Investments Sp. z.o.o. ("Saponis") (i)	Operating Company	Poland	42.96%	20.18%

- (i) On December 31, 2013, the Company and BNK acquired the interests of the other two shareholders in Saponis on a pro-rata basis in exchange for assuming the departing partners' future obligations with regards to Saponis. This acquisition increased the Company's working interest in Saponis to 42.96%.

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### 6. EXPLORATION AND EVALUATION ASSETS

	Papua New Guinea	Poland	United States	Bulgaria	Total
<b>Costs</b>					
<b>Balance as previously recorded, September 30, 2012</b>	\$ 55,622,840	\$ 14,573,273	\$ -	\$ 7,570,435	\$ 77,766,548
Adjustment (Note 3a(iii)a)	-	(13,247,411)	-	-	(13,247,411)
<b>Adjusted balance, September 30, 2012</b>	\$ 55,622,840	\$ 1,325,862	\$ -	\$ 7,570,435	\$ 64,519,137
Acquisition costs	1,890,000	-	2,242,983	-	4,132,983
Additions	3,345,430	40,799	131,197	-	3,517,426
Change in decommissioning obligations	-	-	15,529	-	15,529
Capitalized share based payments	19,513	45,809	-	-	65,322
Proceeds from farm-in	(7,522,079)	-	-	-	(7,522,079)
Foreign exchange movement	(927,188)	(126,460)	2,135	-	(1,051,513)
<b>Balance, September 30, 2013</b>	\$ 52,428,516	\$ 1,286,010	\$ 2,391,844	\$ 7,570,435	\$ 63,676,805
Additions	196,251	54,783	40,346	-	291,380
Change in decommissioning obligations	-	-	(15,529)	-	(15,529)
Capitalized share based payments	253	311	-	-	564
Proceeds from farm-in	(2,696,628)	-	-	-	(2,696,628)
Foreign exchange movement	721,825	126,460	82,624	-	930,909
<b>Balance, June 30, 2014</b>	\$ 50,650,217	\$ 1,467,564	\$ 2,499,285	\$ 7,570,435	\$ 62,187,501
<b>Accumulated depletion and impairment losses</b>					
<b>Balance as previously recorded, September 30, 2012</b>	\$ 46,978,245	\$ -	\$ -	\$ 7,570,435	\$ 54,548,680
Impairment	-	7,921,658	-	-	7,921,658
<b>Balance as previously recorded, September 30, 2013</b>	\$ 46,978,245	\$ 7,921,658	\$ -	\$ 7,570,435	\$ 62,470,338
Adjustment (Note 3a(iii)a)	-	(7,921,658)	-	-	(7,921,658)
<b>Adjusted balance, September 30, 2013</b>	\$ 46,978,245	\$ -	\$ -	\$ 7,570,435	\$ 54,548,680
Write-down	83,523	-	91,817	-	175,340
<b>Balance, June 30, 2014</b>	\$ 47,061,768	\$ -	\$ 91,817	\$ 7,570,435	\$ 54,724,020
<b>Carrying amounts</b>					
Carrying value at September 30, 2012	\$ 8,644,595	\$ 1,325,862	\$ -	\$ -	\$ 9,970,457
Carrying value at September 30, 2013	\$ 5,450,271	\$ 1,286,010	\$ 2,391,844	\$ -	\$ 9,128,125
<b>Carrying value at June 30, 2014</b>	\$ 3,588,449	\$ 1,467,564	\$ 2,407,468	\$ -	\$ 7,463,481

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### 6. EXPLORATION AND EVALUATION ASSETS (continued)

#### Papua New Guinea

As at June 30, 2014, the Company holds an 84.25% working interest in Petroleum Prospecting Licenses ("PPL") 320, 321 and 322 and a 16.85% working interest in PPL 486 (previously PPL 319) through permits received from the Minister of Petroleum and Energy for Papua New Guinea on November 20, 2008. PPLs 320, 321 and 322 have a six year term along with remaining conditional work and expenditure commitments for each PPL, which include various geological studies and seismic reprocessing. As required by the licenses, the Company has submitted proposed work programs for years 5 and 6 for each PPL, but has not yet received formal notification on approval of these work programs. A delay or rejection of the proposed work programs may result in an impairment of the costs associated with these licenses.

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;
- Years 5 and 6: analysis of data from the previous four years and the drilling of a third exploration well.

In accordance with the amended farm-in agreement, Telemu 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.

As at June 30, 2014, the Company also holds a 20% working interest in Petroleum Retention License ("PRL") 13. The Company applied for a renewal of PRL 13 and is yet to receive formal notification from the Minister as to the grant of an extension. A delay or rejection of the renewal may result in an impairment of the costs associated with this PRL. The Register maintained by the Department of Petroleum and Energy records PRL 13 as having been extended until January 29, 2015. 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. As at June 30, 2014, the seismic work program requirements for PRL 13 have been met.

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.

On January 24, 2013, the Company entered into an investment agreement whereby a third party, EERL Holdings, acquired 31.5% of the shares of the Company's subsidiary, Telemu, in consideration for funding of US\$4,000,000 (\$3,938,400). Telemu holds PPLs 486 (previously PPL 319), 320, 321 and 322. On August 20, 2013, the Company re-acquired 15.75% of its equity interest in Telemu (Note 12). The Company recorded an impairment loss of \$46,978,245 with regards to its properties in Papua New Guinea during the year ended September 30, 2012.

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### 6. EXPLORATION AND EVALUATION ASSETS (continued)

#### Papua New Guinea (continued)

On April 22, 2013, the Company closed a farm-in agreement with Heritage Oil Plc (“Heritage”) in which Heritage obtained an 80% participating interest in both PPL 486 (previously PPL 319) and PRL 13, subject to the fulfillment of certain work commitments, in exchange for a cash payment of US\$4,000,000 plus the reimbursement of costs of \$3,522,079 associated with the Company’s completed 22km seismic program totaling \$7,522,079. In addition to the cash payment, Heritage also committed to fund the acquisition of a minimum of an additional 78km of seismic within the license areas and drilling and the completion of one exploration well in PPL 486 (previously PPL 319) 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 (previously PPL 319) and 20km was on PRL 13. The working interests in PPL 486 (previously PPL 319) and PRL 13 of 16.85% and 20%, respectively, assume that Heritage will meet its work commitments in the future and earn its full 80% farm-in.

On May 30, 2014, the Company’s subsidiaries, Telemu, LNG PNG and 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;
- 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.

During the three and nine months ended June 30, 2014, Nil and \$253 of stock based compensation expense was capitalized (\$235 and \$16,926 for the three and nine months ended June 30, 2013). During the three and nine months ended June 30, 2014, \$79,222 and \$199,102 of general and administrative costs was capitalized (\$32,860 and \$67,154 for the three and nine months ended June 30, 2013), respectively.

#### Poland

The Poland exploration and evaluation asset balance consists of capitalized costs incurred by the Company related to its interest in concessions in Poland that are held through its interest in joint ventures. The Company’s interest in these joint ventures are accounted for using the equity method (Note 3(a)(iii) and 8).

During the three and nine months ended June 30, 2014, Nil and \$311 of stock based compensation costs were capitalized in Poland (\$223 and \$43,358 for the three and nine months ended June 30, 2013 respectively). During the three and nine months ended June 30, 2014, \$19,966 and \$54,783 of general and administrative costs was capitalized (\$12,021 and \$34,788 for the three and nine months ended June 30, 2013), respectively. Recovery of costs in the Polish properties is uncertain and is dependent upon achieving commercial production or sale.

# Esrey Energy Ltd.

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NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
As of and for the three and nine months ended June 30, 2014 and 2013  
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### 6. EXPLORATION AND EVALUATION ASSETS (continued)

#### United States

On August 20, 2013, the Company completed the acquisition of Enterprise, which held 100% working interests in approximately 13,000 net acres of oil and gas leases in Sheridan County and 46,700 net acres of oil and gas leases in Cascade County in Montana, USA.

#### Sheridan County

The oil and gas leases in Sheridan County include a commitment to the original vendor to drill four wells ("Initial Wells") of which two must be drilled horizontally. The Initial Wells could be drilled by the Company or a third party, if the third party held any or all of EVO's interest in the leases. The original vendor of the leases could elect to take assignment of up to a 10% working interest (and an 8% net revenue interest) in any of the Initial Wells. If the original vendor made the election to take a 10% working interest assignment on any of the Initial Wells, the Company was required to fund this 10% working interest in such Initial Well, through and including completion, on behalf of the original vendor. The original vendor also had the ability to elect to participate and fund up to a 10% working interest (and an 8% net revenue interest) of any wells subsequent to the Initial Wells.

The first Initial Well ("Archer Well") has been drilled. For the three remaining Initial Wells, the Company had deposited \$1,494,000 (US\$1,500,000) into escrow for the funding of the original owner's 10% working interest on any of the three remaining Initial Wells. If any of the Initial Wells are not drilled, a penalty of US\$500,000 for each Initial Well not drilled will be paid to the original owner from the aforementioned escrow funds. This payment is due and payable within 30 days after the earlier of: 1) when it would be determined that one or more of the Initial Wells would not be drilled or 2) the expiration of the terms of the leases.

On January 31, 2014, the Company entered into an agreement with the original vendor of the oil and gas leases discussed above, in order to settle the corresponding drilling obligations. As a result of this agreement, US\$650,000 of the restricted cash balance has been released to the Company, and the remainder of the restricted cash balance has been released to the original vendor, which resulted in exploration costs. In accordance with the agreement, the Company is released from any further drilling obligations and is no longer required to fund the original vendor's 10% working interest assignment in any of the three remaining Initial Wells. For the first Initial Well, which has been drilled, the Company will be responsible for 100% of all costs through to the earlier of well completion or plugging and abandonment.

Operations on the Archer well located in Sheridan County remain temporarily suspended awaiting further analysis.

During the nine months ended June 30, 2014, a portion of the Sheridan Country leases were not renewed by the Company. As at June 30, 2014, the Company's 100% working interest in oil and gas leases in Sheridan County is approximately 2,280 net acres.

#### Cascade County

The Company has a 100% working interest and a 79% net revenue interest in its oil and gas leases in Cascade County, the majority of which have an original 10 year term. In the event that the Company sells these leases, a disposition bonus equal to 30% of the net profit realized in connection with such disposition is payable to the entity that the Company purchased the leases from. In addition, should the Company commence commercial production of hydrocarbons on the lands covered by the leases, a production bonus of US\$1,500,000 is payable to the entity that the Company purchased the leases from.



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## 6. EXPLORATION AND EVALUATION ASSETS (continued)

### 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 ("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 ban on fracture stimulation enacted 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.

As at June 30, 2014, the Company has funded a total of US\$7,492,122 (Cdn\$7,570,435) towards the drilling of a 3,190 m (10,466 ft.) exploration well on the A-Lovech exploration license, which targets the Middle Jurassic Etropole formation. The remaining US\$7.5 million is expected to be used to drill a second well or for other exploration activities on the Etropole concession after the concession has been granted. If the Etropole concession is granted and the concession covers an aggregate amount equal to or greater than 200,000 acres, then an additional US\$5 million is payable to TransAtlantic.

In January 2012, the Bulgarian Parliament enacted legislation, which among other things, banned fracture stimulation in Bulgaria. The Company recorded an impairment loss of \$7,570,435 during the year ended September 30, 2012, as this legislation created uncertainty with respect to the ultimate cost recovery of the Company's assets in Bulgaria.

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### 7. PROPERTY, PLANT AND EQUIPMENT

<b>Costs</b>	
Balance, September 30, 2012	\$ 401,742
Additions	277
Disposals	(26,420)
Foreign exchange movement	(46,215)
Balance, September 30, 2013	\$ 329,384
Additions	13,882
Disposals	(204,666)
Foreign exchange movement	(4,392)
<b>Balance, June 30, 2014</b>	<b>\$ 134,208</b>
<b>Accumulated depreciation and impairment losses</b>	
Balance, September 30, 2012	\$ 207,010
Depreciation	33,029
Disposal	(23,075)
Write-down	(3,347)
Foreign exchange movement	(29,018)
Balance, September 30, 2013	\$ 184,599
Depreciation	32,851
Disposal	(141,171)
Foreign exchange movement	(3,545)
<b>Balance, June 30, 2014</b>	<b>\$ 72,734</b>
<b>Carrying amounts</b>	
Carrying value at September 30, 2012	\$ 194,732
Carrying value at September 30, 2013	\$ 144,785
<b>Carrying value at June 30, 2014</b>	<b>\$ 61,474</b>

### 8. JOINT VENTURES

Details of the Company's material joint ventures at the end of the reporting period are presented in Note 5. Summarized financial information in respect of the Company's joint ventures is set out below.

	<b>As at</b>	
	<b>June 30, 2014</b>	<b>September 30, 2013</b>
<b>Investment in Joint Ventures</b>		
Saponis Investments Sp z.o.o.	\$ 10,067,008	\$ 4,262,215
Joyce Podlasie, LLC and Maryani Podlasie, LLC	-	2,437,069
EERL Holdings (BVI) Ltd.	123,068	117,092
	<b>\$ 10,190,076</b>	<b>\$ 6,816,376</b>

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## 8. JOINT VENTURES (continued)

### Saponis Investments Sp z.o.o.

As at June 30, 2014, Saponis Investments Sp z.o.o. ("Saponis") held one oil and gas concession in Poland (Slupsk). In June 2014, a four-year extension of the Slupsk license was granted and included conditional work and expenditure commitments to complete 20km of 2D seismic or spud a well within nine months (by March 2015).

On September 18, 2013, the Saponis Management Board decided to relinquish the Slawno and Starogard concessions and immediately initiate the process to abandon the corresponding wells. In accordance with this decision, these concessions were not renewed and a request to relinquish the concessions was filed with the Ministry of Environment on May 2014. As of June 30, 2014, the Slawno and Starogard concessions had reached the end of their primary terms and had been allowed to lapse. The final relinquishment of the Slawno and Starogard concessions is expected to take place in 2014 subsequent to the completion of well abandonment, environmental remediation and the filing of final reports.

In the year ended September 30, 2013, the costs associated with these concessions were written-off in full, which resulted in an impairment charge of \$5,479,120. This impairment expense was included as part of the Company's share of the equity loss from the joint venture during the year ended September 30, 2013.

On December 31, 2013, the Company and BNK acquired the interests of the two other shareholders in Saponis on a pro-rata basis in exchange for assuming the departing partners' future obligations with regards to Saponis. This acquisition increased the Company's working interest in Saponis from 20.18% to 42.96% and resulted in a gain on acquisition of the additional interest in the joint venture of \$1,680,073. In addition, the departing partners have forgiven all amounts owing to them under loans provided to Saponis. As a result, Saponis wrote off approximately US\$10.9 million of the Saponis shareholders' loans as at December 31, 2013. The Company's portion of this forgiveness of debt was included in the Company's share of income of joint ventures.

Summarized financial information in respect of Saponis is set out below. This summarized financial information represents amounts shown in the joint venture's financial statements and has been adjusted by the Company to be in accordance with IFRSs and the Company's accounting policies.

	June 30, 2014	September 30, 2013
<b>Statement of financial position</b>		
Cash and cash equivalents	\$ 1,722,616	\$ 1,487,641
Amounts receivable	113,545	297,778
Prepaid expenses and other deposits	63,928	137,423
Exploration and evaluation assets	22,139,886	20,139,994
Accounts payable and accrued liabilities	(494,301)	(826,860)
Decommissioning obligations	(289,429)	(291,255)
Shareholder loans	(16,364,919)	(24,886,521)
<b>Net assets (liabilities)</b>	<b>\$ 6,891,326</b>	<b>\$ (3,941,800)</b>

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### 8. JOINT VENTURES (continued)

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

	For the three months ended June 30,		For the nine months ended June 30,	
	2014	2013	2014	2013
<b>Statement of comprehensive income (loss)</b>				
Interest expense	\$ (32,956)	\$ (82,601)	\$ (424,887)	\$ -
Debt forgiveness	121,433	-	20,241,628	-
Write-down of exploration and evaluation assets	(2,157)	-	(243,326)	-
Expenses	(75,744)	347,744	(815,425)	(163,119)
Foreign exchange gain (loss)	199,356	395,782	1,118,242	(213,285)
<b>Net income (loss)</b>	<b>209,932</b>	<b>660,925</b>	<b>19,876,232</b>	<b>(376,404)</b>
Other comprehensive income (loss)	294,948	(1,094,408)	(1,861,735)	(1,396,538)
<b>Total comprehensive income (loss)</b>	<b>\$ 504,880</b>	<b>\$ (433,483)</b>	<b>\$ 18,014,497</b>	<b>\$ (1,772,942)</b>

#### Reconciliation of summarized financial information

The following table reconciles Saponis' summarized financial information to the Company's carrying value of the joint venture.

	June 30, 2014	September 30, 2013
Opening net (liabilities) assets	\$ (3,941,801)	\$ 21,670,127
Contributed surplus movement	(7,181,370)	-
Net income (loss)	19,876,232	(27,451,297)
Comprehensive (loss) income	(1,861,735)	1,839,369
	<b>6,891,326</b>	<b>(3,941,801)</b>
<b>Interest in joint venture</b>	<b>42.96%</b>	<b>20.18%</b>
Interest in joint venture	2,960,514	(795,455)
Loan Receivable	5,905,505	5,035,928
Other foreign exchange	1,200,989	21,742
Carrying value amount of interest in joint venture	<b>10,067,008</b>	<b>4,262,215</b>

#### Joyce Podlasie, LLC and Maryani Podlasie, LLC

In February 2011, the Company, through its subsidiary, Kaynes, acquired a 50% interest in Joyce and a 50% interest in Maryani for a total purchase price of US\$4,000,000. The terms and conditions of participation require the Company to fund 50% of all costs related to the concessions held by Joyce and Maryani (which hold the Ilawa and held the Wegrow concessions, respectively). The other partner is San Leon Energy Plc ("San Leon"), which also owns a 50% interest in each of Joyce and Maryani. The Company is the operator for both the Ilawa and Wegrow concessions.

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### 8. JOINT VENTURES (continued)

#### Joyce Podlasie, LLC and Maryani Podlasie, LLC (continued)

Joyce holds a 100% interest in the Ilawa oil and gas exploration concession and Maryani held a 100% interest in the Wegrow oil and gas exploration concession. The terms of both the Ilawa and Wegrow concessions included the requirement to reprocess existing seismic data and the acquisition of 50 km of new 2D seismic in each concession by June 2012. These commitments were fully met. The Wegrow concession terms also included the requirement to drill a well to a depth of 2,750m by December 2013. Such a well was not drilled by December 2013. In June 2014, Maryani did not file for an extension of the Wegrow concession and, consequently, the Wegrow concession was allowed to lapse. As a result, an impairment of \$2,119,235 was recognized during the three months ended June 30, 2014. This impairment reduced the Company's investment in the Maryani joint venture to Nil as at June 30, 2014.

In June 2012, the Company filed and received a renewal for the Ilawa concession extending the term to a maximum of 5 years. This extension carries a commitment to commence drilling a well in Ilawa no later than June 2014. As at September 30, 2013, the Company had no intention of proceeding with the Ilawa project prior to the expiration of the Ilawa concession. As a result, the costs associated with the Ilawa concession as at September 30, 2013, were written off in full, which resulted in an impairment charge of \$2,442,538 that was included in the Company's share of equity loss from the Joyce joint venture during the year ended September 30, 2013. As at June 30, 2014, the Company still had no intention of proceeding with the Ilawa project.

Summarized financial information in respect of Joyce and Maryani is set out below and represents amounts shown in the joint ventures' financial statements adjusted by the Company to be in accordance with IFRSs and the Company's accounting policies.

	June 30, 2014	September 30, 2013
<b>Statement of financial position</b>		
Cash and cash equivalents	\$ 182,225	\$ 173,186
Amounts receivable	4,260	8,423
Exploration and evaluation of assets	1,204,946	2,151,537
Accounts payable and accrued liabilities	(309,417)	(229,936)
Amounts due to related parties	(2,193,039)	(2,135,461)
<b>Net liabilities</b>	<b>\$ (1,111,025)</b>	<b>\$ (32,251)</b>

	For the three months ended June 30, 2014		For the nine months ended June 30, 2014	
	2014	2013	2014	2013
<b>Statement of comprehensive loss</b>				
Other income (expense)	\$ 524	\$ (3,958)	\$ 883	\$ 286
Expenses	(954,957)	(41,241)	(976,399)	(121,545)
Foreign exchange gain (loss)	1,020	(59,718)	36,580	(58,747)
<b>Net loss</b>	<b>(953,413)</b>	<b>(104,917)</b>	<b>(938,936)</b>	<b>(180,006)</b>
Other comprehensive income (loss)	15,929	(372,702)	(139,838)	(193,615)
<b>Total comprehensive loss</b>	<b>\$ (937,484)</b>	<b>\$ (477,619)</b>	<b>\$ (1,078,774)</b>	<b>\$ (373,621)</b>

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## 8. JOINT VENTURES (continued)

### Joyce Podlasie, LLC and Maryani Podlasie, LLC (continued)

#### Reconciliation of summarized financial information

The following table reconciles Joyce and Maryani's summarized financial information to the carrying value of the Company's interest in the joint venture.

	June 30, 2014	September 30, 2013
Opening net liabilities	\$ (32,251)	\$ (98,167)
Net income	(938,936)	3,405
Total comprehensive (loss) income	(139,838)	62,511
	<b>(1,111,025)</b>	<b>(32,251)</b>
<b>Interest in joint venture</b>	<b>50.00%</b>	<b>50.00%</b>
Interest in joint venture	(555,513)	(16,126)
Purchase price adjustment	4,874,028	4,874,028
Impairment	(4,318,515)	(2,498,713)
Other foreign exchange	-	77,879
Carrying value amount of interest in joint venture	-	2,437,069

### EERL Holdings (BVI) Ltd.

On August 20, 2013, the Company acquired a 50% interest in EERL Holdings as part of the amalgamation of Enterprise Energy Resources Ltd. ("Enterprise") (Note 4). The remaining 50% ownership in EERL Holdings is owned by a third party. EERL Holdings owns 31.5% of Telemu.

Summarized financial information in respect of EERL Holdings is set out below and represents amounts shown in EERL Holdings' financial statements adjusted by the Company to be in accordance with IFRSs and the Company's accounting policies.

	June 30, 2014	September 30, 2013
<b>Statement of financial position</b>		
Cash and cash equivalents	\$ 54,371	\$ 107,689
Amounts receivable	191,758	181,745
Investment in Telemu	1,780,823	1,719,571
Accounts payable and accrued liabilities	-	(55,252)
<b>Net assets</b>	<b>\$ 2,026,952</b>	<b>\$ 1,953,753</b>

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### 8. JOINT VENTURES (continued)

#### EERL Holdings (BVI) Ltd. (continued)

	For the three months ended		For the nine months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
<b>Statement of comprehensive (loss) income</b>				
Expenses	\$ (27)	\$ -	\$ (1,819)	\$ (51,533)
Foreign exchange gain	22	-	5,472	-
<b>Net (loss) income</b>	<b>(5)</b>	<b>-</b>	<b>3,653</b>	<b>(51,533)</b>
Other comprehensive (loss) income	(65,059)	165,633	69,546	165,633
<b>Total comprehensive (loss) income</b>	<b>\$ (65,064)</b>	<b>\$ 165,633</b>	<b>\$ 73,199</b>	<b>\$ 114,100</b>

#### Reconciliation of summarized financial information

The following table reconciles EERL Holdings' summarized financial information to the carrying value of the Company's interest in the joint venture.

	June 30, 2014	September 30, 2013
Opening net assets	\$ 1,953,753	\$ -
Acquisition of Enterprise	-	1,945,660
Net income (loss)	3,653	(15)
Other comprehensive income	69,546	8,108
	<b>\$ 2,026,952</b>	<b>\$ 1,953,753</b>
<b>Interest in joint venture</b>	<b>50.00%</b>	<b>50.00%</b>
Interest in joint venture	1,013,476	976,877
Less portion of Investment to Telemu consolidated	(890,408)	(859,785)
Carrying value amount of interest in joint venture	<b>\$ 123,068</b>	<b>\$ 117,092</b>

### 9. DECOMMISSIONING OBLIGATIONS

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with asset retirement costs of the Archer Well in Montana, USA:

	June 30, 2014	September 30, 2013
Balance, beginning of the period	\$ 52,965	\$ -
Addition of the USA decommissioning obligation	-	52,685
Change in estimates	-	-
Accretion expense	1,311	280
Foreign exchange	(1,485)	-
<b>Total decommissioning obligations</b>	<b>52,791</b>	<b>52,965</b>
Less current decommissioning obligations	(52,791)	(52,965)
<b>Long term decommissioning obligations</b>	<b>\$ -</b>	<b>\$ -</b>

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## 9. DECOMMISSIONING OBLIGATIONS (continued)

The undiscounted cash flow required to settle the obligation for the Archer well in Montana, USA is approximately US\$50,000 with an estimated abandonment date in mid-2015. The calculation was assessed using a risk-free interest rate of 3.31% and an assumed inflation rate of 1.5% per annum.

## 10. LOANS PAYABLE

(a) On February 27, 2012, the Company's wholly owned subsidiary, Kaynes, entered into non-revolving credit facilities totaling US\$5,000,000 ("the Loans"). The Loans were repayable within one year on or before February 27, 2013. On January 24, 2013, an extension to the credit facilities was agreed upon whereas the maturity date was extended from the first anniversary date to the third anniversary date, being February 27, 2015. In addition, the contingency bonus payments were increased from 3.125% to 6.25% and from 9.375% to 18.75% for the US\$1,250,000 and US\$3,750,000 portions of the facilities, respectively.

For the three and nine months ended June 30, 2014, the interest expense related to the Loans was \$70,297 and \$285,080 (three and nine months ended June 30, 2013 - \$81,807 and \$230,118 respectively) and is payable upon maturity. Funds drawn under the credit facilities are secured against all of the shares of Kaynes. Interest is accrued at a fixed rate of 7% per annum. In the event that Kaynes disposes of certain assets, Kaynes will be required to pay the lenders a contingent bonus of 25% of the proceeds arising from the disposition of such assets.

On April 28, 2014 the Company settled US\$2,636,363 of the Company's US\$5,000,000 non-revolving credit facilities to arm's length creditors through the issuance of an aggregate 10,943,396 common shares of Esrey at a deemed price of Cdn\$0.265 per common share. The closing price on the day of settlement was Cdn\$0.33 per common share, which resulted in a loss of \$704,730 being recorded. As at June 30, 2014, Cdn\$3,613,692 of the Loans remains outstanding.

(b) As part of the investment agreement with EERL Holdings, there was a loan of \$2,295,103 payable to EERL Holdings by Telemu. This loan formed part of the funding of US\$4,000,000. This loan is non-interest bearing and is payable within a year. As at June 30, 2014, \$188,293 remains outstanding (September 30, 2013 - \$181,899).

## 11. SHARE CAPITAL

a) Authorized

Unlimited common shares without par value.

On November 18, 2013, the Company approved a net consolidation of its issued share capital on the basis of one new common share for one thousand old common shares and then immediately approved a stock split on the basis of 50 new shares for one old share. This resulted in a net share consolidation on the basis of one new common share for twenty old common shares. All current comparative references to the number of shares, options, weighted average number of common shares and loss per share have been restated to the twenty for one net share consolidation.

On April 28, 2014 the Company issued an aggregate of 10,943,396 common shares of Esrey 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.



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## 11. SHARE CAPITAL (continued)

### b) Per share amounts

Per share amounts have been calculated using the weighted average number of common shares outstanding, as shown in the table below.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2014	2013	2014	2013
Net (loss) income	<b>(3,606,326)</b>	(1,232,257)	<b>(453,215)</b>	(2,678,323)
Basic weighted average number of shares outstanding	<b>36,515,829</b>	16,935,968	<b>31,393,351</b>	16,935,968
Effect of dilutive securities Stock options	-	-	-	-
Diluted weighted average number of shares outstanding	<b>36,515,829</b>	16,935,968	<b>31,393,351</b>	16,935,968
Basic (loss)/earnings per share	\$ <b>(0.10)</b>	\$ (0.07)	\$ <b>(0.01)</b>	\$ (0.16)
Diluted (loss)/earnings per share	\$ <b>(0.10)</b>	\$ (0.07)	\$ <b>(0.01)</b>	\$ (0.16)

### c) Stock options

The following table summarizes information about stock option transactions:

	Number of Options	Average Exercise Price
Balance, September 30, 2012	1,163,750	\$7.50
Granted	703,750	\$2.23
Forfeited	(148,500)	\$5.95
Expired	(262,000)	\$9.81
Balance, September 30, 2013	1,457,000	\$4.72
Granted	994,000	\$0.12
Expired	(28,000)	\$3.80
Forfeited	(178,750)	\$8.60
Surrendered	(880,250)	\$5.01
<b>Balance, June 30, 2014</b>	<b>1,364,000</b>	<b>\$0.70</b>

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### 11. SHARE CAPITAL (continued)

#### c) Stock options (continued)

The following table summarizes information about the stock options outstanding at June 30, 2014.

Exercise price	Options outstanding	Options exercisable	Expiry date
\$1.20	101,250	101,250	September 18, 2014
\$2.40	47,500	47,500	July 18, 2016
\$2.40	231,250	231,250	April 19, 2016
\$0.12	984,000	328,000	January 8, 2019
	<b>1,364,000</b>	<b>708,000</b>	

On August 20, 2013, upon the acquisition of Enterprise, 140,750 of Enterprise stock options were converted to 703,750 of Esrey stock options.

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 vest immediately, one third vest on July 8, 2014 and one third vest on January 8, 2015. The options expire on January 8, 2019.

The fair value of the options granted during the nine months ended June 30, 2014 and year ended September 30, 2013 were estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	January 8, 2014	August 20, 2013
Risk free interest rate	1.45%	1.22%
Dividend yield	Nil	Nil
Expected volatility	196.38%	184.58 % - 271.88%
Expected option life	5 years	1.08 - 2.91 years
Estimated fair value per option	\$0.15	\$0.21, \$0.22
Stock price at date of grant	\$0.15	\$0.30
Exercise price per option	\$0.12	\$1.20, \$2.40

The stock based compensation expense for the three and nine months ended June 30, 2014 was \$29,480 and \$106,350 respectively (\$1,561 and \$101,580 for the three and nine months ended June 30, 2013 respectively). The Company capitalized \$nil and \$564 of stock based compensation expense respectively for the three and nine months ended June 30, 2014 (\$80,201 and \$296,555 for the three and nine months ended June 30, 2013 respectively). This resulted in a change within contributed surplus of \$106,914 for the nine months ended June 30, 2014 (\$161,863 for the nine months ended June 30, 2013).

# Esrey Energy Ltd.

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## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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### 12. NON-CONTROLLING INTEREST

<b>Balance, September 30, 2012</b>	<b>\$</b>	<b>-</b>
Non-controlling interests' share of Telemu		1,599,990
Acquisition of 15.75% of non-controlling interest		(683,082)
Non-controlling interests' share of loss in Telemu		(244,387)
Foreign exchange translation		(99,991)
<b>Balance, September 30, 2013</b>	<b>\$</b>	<b>572,530</b>
Non-controlling interests' share of loss in Telemu		(32,218)
Foreign exchange translation		57,068
<b>Balance, June 30, 2014</b>	<b>\$</b>	<b>597,380</b>

### 13. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of members of key management personnel during the three and nine months ended June 30, 2014 and 2013 was as follows:

	For the three months ended		For the nine months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Consulting fees (i)				
- current directors and officers	\$ 122,680	\$ 85,227	\$ 339,922	\$ 247,143
- former directors and officers	-	25,857	-	73,133
Director fees				
- current directors	6,000	6,000	18,000	18,000
Share-based payments (ii)				
- current directors and officers	23,874	1,237	86,423	76,927
- former directors and officers	-	87	-	5,385
	\$ 152,554	\$ 118,408	\$ 444,345	\$ 420,588

The Company paid fees to a private company controlled by an officer of the Company for consulting services.

- (i) Share-based payments are the fair value of options granted to key management personnel including the CEO, CFO and directors of the Company.
- (ii) Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three and nine months ended June 30, 2014 and 2013.
- (iii) Accounts payable and accrued liabilities at June 30, 2014 include \$Nil of directors fees payable (September 30, 2013 - \$30,000). Accounts payable and accrued liabilities at June 30, 2014 included \$Nil due to private companies controlled by an officer and director of the Company (September 30, 2013 - \$20,690). Amounts due to or from related parties are unsecured, non-interest bearing and due on demand.

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### 14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Amounts receivable	\$ 1,108,657	\$ (336,419)	\$ 1,371,749	\$ (101,637)
Prepaid expenses and other term deposits	17,523	106,573	36,293	78,052
Accounts payable and accrued liabilities	(1,274,928)	(1,459,252)	(1,589,057)	128,349
<b>Change in non-cash working capital</b>	<b>\$ (148,748)</b>	<b>\$ (1,689,098)</b>	<b>\$ (181,015)</b>	<b>\$ 104,764</b>
Relating to:				
Operating activities	\$ (145,546)	\$ (661,796)	\$ (514,248)	\$ (92,133)
Investing activities	(3,202)	(1,027,302)	333,233	196,897
<b>Change in non-cash working capital</b>	<b>\$ (148,748)</b>	<b>\$ (1,689,098)</b>	<b>\$ (181,015)</b>	<b>\$ 104,764</b>

### 15. FINANCIAL INSTRUMENTS

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

#### ***Fair value of financial assets and liabilities***

Fair value has been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The carrying amount for cash and cash equivalents, restricted cash, amounts receivable and accounts payable and accrued liabilities on the statement of financial position approximate their fair value because of the limited term of these instruments.

The carrying amount for loans payable approximates its fair value as it is classified as a financial liability measured at amortized cost.

#### ***Fair value hierarchy***

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

As at June 30, 2014 and September 30, 2013, the Company did not have any financial instruments in Level 1, 2 or 3.

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## 15. FINANCIAL INSTRUMENTS (continued)

### *Financial risk management objectives and policies*

The Company has exposure to the following risks from its use of financial instruments

- Credit risk
- Liquidity and funding risk
- Market risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risk, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in these notes.

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.

### *Credit risk*

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The credit risk associated with cash and cash equivalents and amounts receivable is believed to be minimal. 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. Due to the nature of these financial assets, the Company does not believe it is exposed to significant credit risk and counterparty risks.

### *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 holding of cash. The Company's cash is invested in business accounts and are available on demand.

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

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments. The following table summarizes the Company's significant remaining contractual maturities for financial liabilities at June 30, 2014 and September 30, 2013.

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## 15. FINANCIAL INSTRUMENTS (continued)

### Contractual maturity analysis as at June 30, 2014

	Less than 3 months	3 - 12 months	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 71,436	\$ 186,399	\$ -	\$ 257,835
Loans payable - current	-	3,613,692	-	3,613,692
<b>Total</b>	<b>\$ 71,436</b>	<b>\$ 3,800,091</b>	<b>\$ -</b>	<b>\$ 3,871,527</b>

### Contractual maturity analysis as at September 30, 2013

	Less than 3 months	3 - 12 months	1 - 5 years	Total
Accounts payable and accrued liabilities	\$ 505,308	\$ 194,733	\$ -	\$ 700,041
Loans payable - current	-	181,899	-	181,899
Loans payable - long term	-	-	5,752,725	5,752,725
<b>Total</b>	<b>\$ 505,308</b>	<b>\$ 376,632</b>	<b>\$ 5,752,725</b>	<b>\$ 6,634,665</b>

### **Market risk**

The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rates. Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. 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**

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**

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.

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### 15. FINANCIAL INSTRUMENTS (continued)

#### *Market risk (continued)*

#### **b. Foreign currency risk (continued)**

The Company is exposed to currency risk through the following financial assets and liabilities denominated in currencies other than the Canadian dollar at June 30, 2014 and September 30, 2013:

	June 30, 2014	September 30, 2013
Cash	\$ 7,360,333	\$ 6,716,508
Restricted cash	-	1,554,113
Amounts receivable	65,664	22,096
Prepaid expenses and other deposits	288,408	365,449
Accounts payable and accrued liabilities	105,882	224,433
	\$ 7,820,287	\$ 8,882,599

### 16. CAPITAL MANAGEMENT

The Company manages, as capital, the components of shareholders' equity. The Company's objectives, when managing capital, are to safeguard its ability to continue as a going concern in order to explore its oil and gas interests and 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 from optionees, enter into joint venture arrangements, borrow or 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.

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### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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#### 17. SEGMENT INFORMATION

##### a. Geographic Information

The Company operates in one reportable operating segment, being the exploration of oil and gas properties in Papua New Guinea, Poland and the United States. The Company's geographical information is as follows:

As at June 30, 2014	Papua New Guinea	Poland	United States	Canada	Total
Current assets	\$ 3,134,568	\$ 79,638	\$ 3,439,826	\$ 2,381,925	\$ 9,035,957
Exploration and evaluation assets	3,588,449	1,467,564	2,407,468	-	7,463,481
Property, plant and equipment	2,796	1,320	-	57,358	61,474
Investment in joint ventures	-	10,190,076	-	-	10,190,076
	\$ 6,725,813	\$ 11,738,598	\$ 5,847,294	\$ 2,439,283	\$ 26,750,988

As at September 30, 2013	Papua New Guinea	Poland	United States	Canada	Total
Current assets	\$ 611,732	\$ 38,218	\$ 3,693,270	\$ 3,507,981	\$ 7,851,201
Exploration and evaluation assets	5,450,271	1,286,010	2,391,844	-	9,128,125
Property, plant and equipment	67,118	1,831	-	75,836	144,785
Investment in joint ventures	-	6,816,376	-	-	6,816,376
Restricted cash	-	-	1,554,113	-	1,554,113
	\$ 6,129,121	\$ 8,142,435	\$ 7,639,227	\$ 3,583,817	\$ 25,494,600

#### 18. SUBSEQUENT EVENTS

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 ("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 ban on fracture stimulation enacted 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.