

***Emerald Bay Energy***



# MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with Emerald Bay Energy Inc. (the "Company") audited annual Consolidated Financial Statements for the year ended December 31, 2017. Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company is listed on the TSX Venture Exchange under the symbol "EBY". The MD&A is dated April 30, 2017

## BASIS OF PRESENTATION

The financial data presented below has been prepared in accordance with International Financial Reporting Standards. All amounts are reported in Canadian dollars unless otherwise indicated.

### Basis of consolidation

The consolidated financial statements referenced in this MD&A include the accounts of the Company, as well as Production Resources, Inc. (PRI) where the Company owns 75% of the outstanding shares. Control exists when the Company has the power over the investee, exposure or rights to variable returns from its involvement and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries, including entities which the Company controls, are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany transactions and balances have been eliminated.

### Application of Accounting Estimates

The significant accounting policies used by the Company are disclosed in Note 3 to the annual Consolidated Financial Statements for the year ended December 31, 2017. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a periodic basis. The emergence of new information and changed circumstance may result in actual results or changes to estimates that differ materially from current estimated amounts.

### Non-IFRS and Non-GAAP Measures

This MD&A includes the following measures that are from time to time used by the Company, but do not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies:

- a) "Funds from operations" - should not be considered an alternative to, or more meaningful than "cash flow from operating activities" as determined in accordance with IFRS as an indicator of the Company's financial performance. Funds from operations is determined by adding non-cash expenses to the net income or loss for the period, deducting decommissioning liability expenditures and does not include the change in working capital applicable to operating activities. Management believes that in addition to cash flow from operating activities, funds from operations is a useful supplemental measure as it provides an indication of the results generated by the Company's principal business activities before the consideration of how such activities are financed.
- b) "Operating netback" - Operating netbacks are calculated by deducting royalties and operating costs, including transportation costs, from revenues.

- c) "Working capital" – working capital includes total current assets and total current liabilities. The working capital ratio is calculated by deducting total current liabilities.

### **Going Concern**

At December 31, 2017, the Company had not yet achieved profitable operations, had an accumulated deficit of \$22,785,516 since its inception (December 31, 2016 - \$19,154,165), had negative cash flows used in operations of \$832,443 (December 31, 2016 - \$265,603) and had a working capital deficiency of \$16,350,342 (December 31, 2016 - \$6,670,480) (defined as current assets less current liabilities), and expects to incur further losses in the development of its business. The ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the future. Management is committed to raising additional capital to meet its exploration and operating obligation, however, additional equity financing is subject to the global financial markets and economic conditions, which have recently been disrupted and are volatile, and the debt and equity markets, which are distressed, particularly for junior petroleum and natural gas companies. All of these factors, together with weak natural gas prices and the current unstable economic conditions, indicate the existence of material uncertainties related to events or conditions that may cast significant doubt as to whether the Company can continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications that would be necessary if the going concern assumption was not appropriate. Any adjustments necessary to the consolidated financial statements if the Company ceases to be a going concern could be material.

### **BOE Presentation**

The term "barrels of oil equivalent" (BOE) may be misleading, particularly if used in isolation. A BOE conversion of six thousand cubic feet of natural gas to one barrel of oil (6:1) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers should be aware that historical results are not necessarily indicative of future performance.

### **FORWARD-LOOKING STATEMENTS**

Certain statements contained within the Management's Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements.

In particular, this MD&A may contain the following forward looking statements pertaining to, without limitation, the following:

The Company's future production volumes and the timing of when additional production volumes will come on stream; the Company's realized price of commodities in relation to reference prices; the Company's future commodity mix; future commodity prices; the Company's expectations regarding future royalty rates and the realization of royalty incentives; the Company's expectation of future operating costs on a per unit basis; future general and administrative expenses; future development and exploration activities and the timing thereof; the future tax liability of the Company; the expected rate of depletion, depreciation and accretion; the estimated future contractual obligations of the Company; the future liquidity and financial capacity of the Company; and, the Company's ability to fund its working capital and forecasted capital expenditures. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements,

as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

With respect to the forward looking statements contained in the MD&A, the Company has made assumptions regarding: future commodity prices; the impact of royalty regimes and certain royalty incentives; the timing and the amount of capital expenditures; production of new and existing wells and the timing of new wells coming on-stream; future proved finding and development costs; future operating expenses including processing and gathering fees; the performance characteristics of oil and natural gas properties; the size of oil and natural gas reserves; the ability to raise capital and to continually add to reserves through exploration and development; the continued availability of capital, undeveloped land and skilled personnel; the ability to obtain equipment in a timely manner to carry out exploration and development activities; the ability to obtain financing on acceptable terms; the ability to add production and reserves through exploration and development activities; and, the continuation of the current tax and regulation.

We believe the expectations reflected in forward looking statements contained herein are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be. The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this MD&A, which include volatility in market prices for oil and natural gas; counterparty credit risk; access to capital; changes or fluctuations in production levels; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; stock market volatility and market valuation of the Company's stock; geological, technical, drilling and processing problems; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry, changes in the regulatory regimes under which the Company operates, changes in the political and social environment that may impact the Company and the other factors discussed under "Risk Factors" in the following annual MD&A. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward looking statements contained in this document speak only as of the date of this document and the Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

## OVERALL PERFORMANCE AND OUTLOOK

The Company's focus remains its oil based exploration program in South Texas. As such the Company completed a new credit facility arrangement in 2017, has acquired new or increased interests in several properties, and has completed three Private Placements since August 2017.

During the year the Company closed a loan agreement with a private company, whereby the Lender issued to the Company a credit facility with the ability to borrow up to \$6,225,000. The credit facility was used to repay certain loans (note 13 and note 16 of the financial statements) with the balance used for acquisitions of oil and gas interests in South Texas and Alberta as noted below:

- The Company increased its interest in the Wooden Horse and Nash Creek projects in Guadalupe County, Texas from 27.8% to 50%, for aggregate proceeds of \$1,270,195 USD (\$1,689,359 CDN). The Company considers the increase in ownership to be very advantageous operationally as well as attractive to investors as the Company now will have potentially much more upside in the projects.
- The Company increased its interest in PRI (notes 6 and 7(i) of the financial statements) from 10% to 75% for aggregate proceeds of \$1,727,000 USD (\$2,314,180 CDN). The daily production rates in the Company's PRI affiliate is not reported in the Company's average daily production rate. These volumes will be periodically reported through press releases. The Company considers the PRI asset to be a potential core area in the coming years. With over 40 surveyed drilling locations, PRI has the potential for significant growth.
- The Company also acquired certain non-operated working and net profit interest in 14 producing Cardium oil and gas wells near Edson Alberta for aggregate proceeds of \$275,000 (note 7(ii) of the financial statements ).

During the year the Company drilled and completed the Kuhn 4 well at the Company's Wooden Horse property. The Company stimulated the Buda formation and swabbed fluid for two days. Over the course of the two day test the well had inflow rates of 42 and 50 BOPD respectively. The Company then completed an additional 5 foot perforation interval in the well and at the time of this writing the well has been producing for several weeks. Although drilled as an Austin Chalk target, the Company has not tested the Austin Chalk in Kuhn 4 at this time, but will do so at a future date as the well showed good Austin Chalk potential during drilling.

At the time of this writing the Company has begun production on the recently re-entered Kuhn 3 well. The company completed Kuhn 3 in the upper Austin Chalk well and initial test rates for the well were 80 barrels of oil per day of oil including the associated gas.

At the time of this writing, the Company is now in the process of permitting locations for Kuhn 5 and Kuhn 6 as Austin Chalk targets. The Company feels that results from the Austin Chalk formation, as seen in the Kuhn 3 well, may even be better as the Company identifies locations up-dip from Kuhn 3 and closer in proximity to the primary fault.

At the time of this writing, the Company has completed operations to equip and tie in the final three wells of the MarPat partnerships. As noted in the press release of Jan. 19, 2018, the wells were perforated and completed in the Anacocho, Olmos, or Escondido formations. It is anticipated that all three wells will be equipped and producing by the end of the week. With the completion of this operation, oil production from the sixteen MarPat wells will be approximately 40 barrels per day, approximately 10 bbls per day net to Emerald Bay at no cost to the company.

The MarPat partnerships are farmouts whereby the farmees/partners pay 100 per cent of the drilling and equipping costs for a 75-per-cent working interest in the wells. As the operator and farmor, Emerald Bay earns a 25-per-cent carried working interest in the wells.

During the year the Company closed a Private Placement for proceeds of \$320,000 in August, and the first tranche of another Private Placement for proceeds of \$150,000 in late December. The Company closed the final tranche for proceeds of \$250,000 of that Private Placement in early January, 2018. Subsequent to the year end, at the time of this writing, the Company has recently closed another Private Placement for proceeds \$500,000.

The net proceeds of the Private Placements have been and will be used in respect existing drilling commitments on the Corporation's assets in Texas, currently in relation to the following:

- Drill, complete and equip the Kuhn 5 and Kuhn 6 wells in the Austin Chalk, Eagle Ford and/or Buda formations at an approximate cost of \$135,000 each;
- Recomplete the Kuhn 1H well in the A zone of the Edwards formation at an approximate cost of \$150,000;
- Renew leased acreage and lease acreage adjacent to the Wooden Horse property at an approximate cost of \$80,000.

Additionally, the Company currently owns approximately 4% of the shares of an electric generation project in Nevis, Alberta. At the time of this writing the Company is in discussions to divest its shares in the project to reduce the Company's Credit Facility. Management feels that divesting of this asset will enhance the Company's focus on the opportunities that now exist in South Texas.

The Company will continue to pursue a carefully designed capital expenditure program at the Company's Wooden Horse and Nash Creek properties as well as opportunities similar to the MarPat partnerships. Additionally, the Company will pursue acquisitions and dispositions, which would allow us to add production, reserves and cash flow in a cost effective manner while maintaining a level of flexibility in our balance sheet. Our proven management and dedicated team of professionals are engaged and committed to developing our high-quality asset base.

## SELECTED ANNUAL INFORMATION

	2017	2016	2015
Revenue	435,458	13,440	37,159
Net loss	(3,734,601)	(1,069,880)	(663,456)
Per common share - basic	(0.02)	(0.01)	(0.00)
Per common share – diluted	(0.02)	(0.01)	(0.00)
Total assets	10,497,281	2,956,749	3,472,821
Total non-current financial liabilities	1,309,010	446,652	503,711
Cash dividends or distributions declared per common share	-	-	-

### *Year ended December 31, 2017*

The net loss for the year ended December 31, 2017 was \$3,734,601 or \$0.02 per share compared to \$1,069,880 or \$0.01 per share in the previous year.

Revenue from the sale of petroleum and natural gas is recorded on a gross basis when title passes to an external party and is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including production, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

Revenue Increased to \$435,458 for the year ended December 31, 2017 from revenue of \$13,440 during the year ended December 31, 2016 as the Company acquired additional shares in the PRI asset and the financial statements are now consolidated.

Year over year, the Company's revenue has increased. Commodity prices were up significantly in 2017. There continues to be minimal production from the Canadian oil and gas assets as the majority of these assets were disposed prior to 2016. The Company will continue to focus on its exploration program in Texas.

Production expenses for the year ended December 31, 2017 increased to \$383,265 from the year ended December 31, 2016 of \$16,165 which is in line with the acquisition of the additional interest in PRI as noted above.

General and administrative expenses ("G&A") increased to \$873,625 during the year ended December 31, 2017 from \$645,035 for the same period during 2016. The increase in the Company's G&A is reflective of the Company's efforts to reverse the Cease Trade Order that the Company was under for the first half of 2017 as well as the efforts to move forward with Company's exploration program in Texas.

	General & Administrative Expenses	
	December 31, 2017 (\$)	December 31, 2016 (\$)
Net G&A expense	873,265	645,035

### *Fourth Quarter Fiscal 2017*

The net loss for the quarter ended December 31, 2017 was \$2,984,974 or \$0.01 per share compared to \$476,737 or \$0.00 per share in the previous year.

Revenue Increased to \$219,316 for the quarter ended December 31, 2017 from revenue of \$5,198 during the quarter ended December 31, 2016 as the Company acquired additional shares in the PRI asset and the financial statements are now consolidated.

## QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly information that has been derived from the Consolidated Financial Statements of the Company. This summary should be read in conjunction with the Consolidated Financial Statements of the Company as contained in the public record.

Quarterly Financial Information (\$000 except per share and unit values)	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
	2017	2017	2017	2017	2016	2016	2016	2016
Petroleum and natural gas sales	212	210	10	3	5	3	2	3
Net loss	(2,710)	(566)	(322)	(137)	(532)	(253)	(172)	(113)
Net loss per share								
Basic and diluted	(0.01)	0.00	0.00	(0.00)	(0.00)	(0.00)	0.00	(0.00)
<b>Average daily sales</b>								
Natural gas (MCF/d)	15	15	19	17	18	18	18	19
Oil/NGL (BBLs/d)	36	37	-	-	-	-	-	-
Barrels of oil equivalent (BOE/d)	40	40	3	3	3	3	3	3
<b>Average sales prices</b>								
Natural Gas (\$/MCF)	2.60	2.57	2.89	2.82	3.05	2.00	1.15	1.80
Oil/NGL (\$/BBL)	59.66	57.68	-	-	-	-	-	-
Sales price of oil equivalent (\$/BOE)	60.15	59.21	20.66	16.92	18.83	10.80	6.90	10.85
Operating costs (\$/BOE)	39.75	41.24	8.85	16.73	9.05	13.28	18.59	15.39
Royalty Expense (\$/BOE)	1.57	1.47	.41	1.11	5.47	(0.78)	.45	1.13
Operating netback (\$/BOE)	18.83	16.50	11.57	(0.92)	4.31	(3.30)	(12.14)	(5.67)

### Explanation of Quarterly Variances

On a quarter by quarter basis, production volumes, and accordingly petroleum and natural gas sales, have remained minimal in Canada, with little fluctuation. The Company's growth is reflected in the acquisition of additional shares of the PRI asset in South Texas.

The Company continues to focus on the exploration and development of its Texas assets in Guadalupe County and at the time of this writing has seen positive testing result from the Kuhn 3 and Kuhn 4 wells. Additionally, the Imhoff 1 well was just worked over and has begun production. As these assets were deemed exploratory at the year ended December 31, 2017, all revenue and associated operating costs are deemed pre-production and are capitalized to exploration and evaluation assets. These assets have begun the production phase and at the time of this writing initial sales are taking place. These sales will be reflected in the coming interim financials in 2018.

## **LIQUIDITY & CAPITAL RESOURCES**

In order to resolve its working capital deficiency of \$16,350,342, and to access additional share equity, the Company will continue to emphasize its exploration program in Texas. The Company also owns interests in natural gas wells and an electricity generation project in Alberta. The Company's Texas prospects should produce better returns due to higher oil prices compared with natural gas, as well as greater drilling potential and more drilling locations.

Given the Company's recurring operating losses it is critical that the Company focus on areas with the potential for growth, positive cash flow and income, which are considered to exist in the Texas.

Also, to resolve its working capital deficiency, the Company continues to work with its lenders and trade partners to mitigate ongoing costs and to continue as a going concern.

### ***Loan***

During 2017, the Company closed a loan agreement (the "Loan Agreement") with a private company (the "Lender"), whereby the Lender issued to the Company a credit facility with the ability to borrow up to \$6,225,000 (the "Credit Facility"). The Credit Facility had an interest free period until October 1, 2017, at which point the Credit Facility now bears interest at a rate equal to Prime Rate plus 1.5% per annum. The Credit Facility is payable upon demand by the Lender, and is secured over all of the assets of the Company. The Credit Facility was used to repay the Loan (note 13 of the financial statements) and a portion of the Short-term debt (note 16), with the balance being used for acquisitions of oil and gas interests in South Texas and Alberta.

### ***Convertible debt***

On January 1, 2012, the Company entered into a loan agreement (the "Loan Agreement") with a corporation owned and controlled by a party who is also a significant shareholder of the Company (the "Lender") whereby the Company received a \$150,000 USD (\$201,000 CAD) loan with a maturity date of one year (the "Original Loan"). Pursuant to the Loan Agreement, if it is mutually agreed upon by both parties, the maturity date can be extended by an additional year. During the years ended December 31, 2016, 2015 and 2014, the Lender advanced an additional loan amount of \$75,000 and \$100,000 (the "Advances"), respectively, to the Company under the same terms as the Original Loan. At each maturity date, the Company and the Lender mutually agreed to extend the Original Loan and the Loan advances by an additional year. As at December 31, 2017, the Company has not received demand from the Lender for repayment, and the Company is currently negotiating an extension of the loan with the Lenders. Interest on the loan is 12% per annum, payable monthly, on the outstanding principal amount. Security for the loan consists of a \$150,000 promissory note issued to the Lender and monthly production from certain Texas assets equivalent to the principal portion of the loan and any unpaid interest.

At the option of the Lender, and subject to regulatory approval, the entire principal amount of the Original Loan, or any portion outstanding, may have been converted to shares in the Company with a discount of 25% to the market trading price at the time of conversion, at any time during the term. The conversion feature on the Original Loan expired unexercised on December 31, 2014 and the conversion features on the Advances did not receive regulatory approval before the conversion features expired.

The term-extensions in 2015 and 2016 did not result in an extinguishment of the old convertible debt instrument and recognition of a new convertible debt instrument. The original proceeds of the loan were used to continue the Company's exploration program in Texas. During the year ended December 31, 2017, the Company incurred interest of \$92,164 (December 31, 2016 - \$48,632) on the aggregate amount of \$363,175 owing under the convertible debt.

### ***Demand loan***

On May 12, 2015, the Company entered into a loan agreement (the "Demand Loan") with a corporation owned and controlled by a party who is also a significant shareholder of the Company (the "Lender") for up to an amount of \$150,000. The proceeds of the Demand Loan were used for the continued operation of the Company. The Demand Loan is due on the demand of the Lender and bears interest of 8.00% per annum, compounded monthly. At December 31, 2017, the Company has drawn \$125,500 against the Demand Loan (December 31, 2016 - \$123,000) and has accrued interest of \$28,715 (December 31, 2016 - \$15,299). The Company may repay the Demand Loan in full at any time prior to demand without notice or penalty.

### ***Short-term loan***

- a) During the year ended December 31, 2016, the Company received a short-term loan (the "Short-term Loan") from the Lenders associated with the Loan (note 13) and the Convertible debt (note 14), collectively, the Lenders (the "Lenders") in the maximum available amount of \$350,000. A set-up fee of \$6,000 was charged by the Lenders, and is included in general and administrative expenses. Interest on the Short-term Loan is 10% per annum, compounded monthly. The Short-term Loan matured December 1, 2016. The proceeds of the Short-term Loan were to provide capital for on-going operational and administrative costs of the Company. The Company may repay some or all of the outstanding balance of Short-term Loan without notice or penalty.

As security for the total Short-term Loan, if the Short-term Loan is not repaid by the maturity date (December 1, 2016), at the option of the Lenders (the "Option"), the Lenders may acquire a 10% equity investment in PRI (note 6). If the option is exercised by the Lenders, the Lenders have granted the Company the ability to re-acquire the 10% equity investment in PRI for a period of 9 months from Option exercise date insofar as the Short-term Loan is fully repaid. As at December 31, 2017, the Company has not received demand from the Lenders for repayment, nor have they exercised their Option, and the Company negotiated an extension of \$50,000 short-term Loan with the Lenders.

During December 31, 2017 part of the proceeds from the Note Payable (note 17) was used to settle the loan. At December 31, 2017, the total amount outstanding under the Short-term Loan is \$225,000 (December 31, 2016 - \$314,262), and during the year ended December 31, 2017 incurred interest of \$33,363 (December 31, 2016 - \$15,366).

The following table summarizes the accounting of the Loan:

	\$
<b>Balance, December 31, 2016</b>	<b>314,262</b>
Repayment of loan	(139,262)
Advanced in 2017	50,000
<b>Balance, December 31, 2017</b>	<b>225,000</b>

- b) As part of the PRI acquisition (Note 7), the Company acquired short term loans. The loans are due to a significant shareholder in the Company. Under the terms of a loan agreement the maturity date was September 15, 2015. These loans are unsecured and non-interest bearing. At December 31, 2017 \$501,800 was outstanding.

## **Note payable and Credit facility**

- a) The Company closed a loan agreement (the "Loan Agreement") with a private company (the "Lender"), whereby the Lender issued to the Company a Note payable with the ability to borrow up to \$6,250,000 (the "Note payable"). The Lender is a significant shareholder of the Company. The Note Payable will have an interest free period until October 1, 2017, at which point the Note payable will bear interest at a rate equal to Prime Rate plus 1.5% per annum. The Note payable is payable upon demand by the Lender, and is secured over all of the assets of the Company. The Note Payable was used to repay the Loan (note 13) and the part of the convertible debt (note 16 (a)), with the balance being used for future acquisitions of oil and gas interests in South Texas and Alberta, including in the acquisitions noted in Notes 7 and 10.

At December 31, 2017, the total amount outstanding under the long term Loan is \$6,193,083, (December 31, 2016 - \$Nil), and during the year ended December 31, 2017 incurred interest of \$73,656 (December 31, 2016 - \$Nil).

- b) As part of the PRI acquisition, the Company acquired a credit facility. ). The credit facility is due to a significant shareholder in the Company. The Credit facility may be drawn up to \$4,600,000. At December 31, 2017 the principal balance was \$3,980,263 and unpaid interest is \$454,088. Interest of \$179,634 for the period from date of acquisition to December 31, 2017 was expensed in the statement of comprehensive loss. The Credit facility bears interest at 10%, is unsecured and is due on demand.

Additionally, although the Company was under a cease trade order for almost a year, the Company has moved forward and the cease trade order was revoked on April 20, 2017. Shares of the Company resumed trading on the TSX-Venture Exchange and the Company resumed the process of pursuing private placement participants to help resolve the working capital deficiency and continue development of the Company's assets.

The Company has a long history of successful private placements and anticipates that it will be able to complete private placements in the future. At the time of this writing the Company has completed the following Private Placements in 2017 and 2018.

On August 23, 2017 the Company was able to close the following private placement for proceeds of \$320,000:

Number of units: 32,000,000 common share units (Each unit consists of one common share and one common share purchase warrant, exercisable for 12 months at a price of five cents.)

Purchase price: \$0.01per unit

On December 20, 2017 the Company was able to close the first tranche of the following private placement for proceeds of \$250,000:

Number of units: 16,666,667 common share units (Each unit consists of one common share and one common share purchase warrant, exercisable for 12 months at a price of five cents.)

Purchase price: \$0.015 per unit

On January 3, 2018 the Company was able to close the second, and final, tranche of the following private placement for proceeds of \$150,000:

Number of units: 10,000,000 common share units (Each unit consists of one common share and one common share purchase warrant, exercisable for 12 months at a price of five cents.)

Purchase price: \$0.015 per unit

On April 27, 2018 the Company was able to close the following private placement for proceeds of \$500,000:

Number of units: 20 million common share units (Each unit consists of one common share and one common share purchase warrant, exercisable for 12 months at a price of five cents.)

Purchase price: \$0.025 per unit

All of the Common Shares and Warrants issued pursuant to the private placement were/are subject to a 4-month hold period. The terms of these private placements are according to the TSX Venture Exchange Discretionary Waivers of \$0.05 Minimum Pricing Requirement Bulletin dated April 7, 2014 and are subject to the final approval of the TSX Venture Exchange.

While the measures to address the Company's working capital deficiency outlined in the paragraphs above will help, it is noted that these measures alone will not resolve the working capital deficiency in its entirety and as such the Company will carry a working capital deficiency for the foreseeable future. As such there is the risk that the Company may not be able to meet all of its financial obligations. In the long term it will be necessary for the Company to establish sufficient cash flows from operations to completely resolve the working capital deficiency.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company is not party to any arrangements that would be excluded from the balance sheet.

## **RELATED PARTIES**

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

- a) The following amounts are due from related parties:

During the year ended December 31, 1999, a promissory note was issued by an officer of the Company bearing interest at 3% per annum with no fixed maturity date, unless the officer's employment is terminated or he is petitioned into bankruptcy wherein the note and accrued interest becomes immediately payable. During the year ended December 31, 2014, the Company revised the terms of the loan (the "Revised Promissory Note"), including fixed repayment terms and removing the term securing the note with 393,000 common shares of the Company. Historically the aggregate decline in the fair value of these common shares since the inception of the promissory note would offset the amount payable (December 31, 2013 – fair value allowance \$240,789). Under the Revised Promissory Note, a balance of \$247,970, including the principal of \$218,500 and accrued interest, is payable by the officer to the Company. The payments were to commence on December 31, 2015, and be paid annually in \$50,000 tranches until December 31, 2018, with the final payment of \$47,970 due on December 31, 2019. Interest is calculated at 1% per annum, and is payable annually commencing December 31, 2015, concurrently with each principal payment. The officer may repay the principal amount in whole or in part at any time. As at December 31, 2017, the officer had not yet paid the initial instalment, and the terms of the payments has been extended to begin on December 31, 2017. The terms of the loan agreement do not provide the Company with recourse to ensure repayment. Thus, the share purchase loan has been presented as a deduction from equity.

b) Additional related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

- (i) Aggregate fees of \$Nil (December 31, 2016 - \$22,500) were charged by directors of the Company all of which was recorded in the consolidated statement of comprehensive loss.
- (ii) Aggregate fees of \$72,902 (December 31, 2016 - \$nil) were charged by corporations, which are owned and controlled by other equity investors in PRI, and were all recorded as general and administrative costs.
- (iii) Included in accounts payable at December 31, 2017 was \$359,428 owing to officers of the Company (December 31, 2016 - \$352,412).

#### *Key management compensation*

During the year ended December 31, 2017, \$483,040 (December 31, 2016 - \$367,023) in management compensation was incurred. \$365,651 was recognized to the consolidated statement of comprehensive loss and \$117,389 was capitalized to property and equipment in the consolidated statement of financial position.

All related party transactions are in the normal course of operations and have been measured at the agreed exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is similar to those negotiated with third parties.

#### *Corporate Cease Trade Orders*

Other than as set forth below, no director or proposed director of the Corporation is, or has been within the past ten years, a director or officer of any other company that, while such person was acting in that capacity:

- (i) was the subject of a cease trade or similar order or an order that denied the company access to any exemptions under securities legislation for a period of more than 30 consecutive days;
- (ii) was subject to an event that resulted, after that individual ceased to be a director or officer, in the company being the subject of a cease trade or similar order or an order that denied the company access to any exemptions under securities legislation for a period of more than 30 consecutive days; or
- (iii) within a year of that individual ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

On May 5, 2016, the Alberta Securities Commission issued a cease trade order against the Corporation as a result of the Corporation's failure to file its annual audited financial statements, annual management's discussion and analysis, and certification of annual filings for the year ended December 31, 2015 (the "**2015 Unfiled Documents**"). The Corporation was also the subject of cease trade orders issued by the Ontario Securities Commission on May 10, 2016 and the British Columbia Securities Commission on May 12, 2016 for failure to file its 2015 Unfiled Documents. On May 6, 2016 the TSXV suspended trading in the Corporation's securities as a result of the cease trade order issued by the Alberta Securities Commission. The 2015 Unfiled Documents were ultimately filed on August 2, 2016. The cease trade order was revoked by the Alberta Securities Commission on April 20, 2017 (and was automatically revoked in the other jurisdictions). All of the proposed directors of the Corporation were directors at the time such cease trade orders were issued.

On May 8, 2017, the Alberta Securities Commission issued a cease trade order against the Corporation as a result of the Corporation's failure to file its annual audited financial statements, annual management's discussion and analysis, and certification of annual filings for the year ended December 31, 2016 (the "**2016 Unfiled Documents**").

On May 25, 2017, further to the TSX Venture Exchange bulletin dated May 5, 2016, the cease trade orders issued by the Alberta Securities Commission dated May 5, 2016, and May 8, 2017, were revoked. At the opening, Friday, May 26, 2017, trading was reinstated in the securities of the company.

In 2010, Budget Waste Inc. filed for CCAA proceedings. Kendall Dilling was a director of Budget Waste Inc at that time. Mr. Dilling currently serves as a director of Emerald Bay.

## COMMITMENTS

- a) On March 5, 2014, the Company entered into a lease agreement with a related party for the lease of office space. Under a lease agreement, the Company committed to monthly payments of \$2,771 for the lease of its office space until November 30, 2016. On December 1, 2016, the Company agreed to continue paying \$2,771 on a month-to-month basis.

On August 1, 2017, the company entered into a new lease agreement with the related party noted above for the lease of office space. Under the new lease agreement, the company committed to monthly payments of \$2,100 on a month-to-month basis.

- b) The Company raised capital through the issuance of flow-through shares in 2009, 2010 and 2011 which provided indemnity to the subscriber for additional taxes payable if the Company was unable to, or failed to, renounce the qualifying expenditures as agreed. The Company was not able to spend \$824,338 of the flow-through funds raised. The Company is exposed to costs for the indemnification of the subscribers. The Company has estimated a potential liability on the amount of \$322,624 at December 31, 2017 (December 31, 2016 - \$332,388). The Company has also estimated a potential liability for penalties and taxes in the amounts of \$22,543 (December 31, 2016 - \$107,500) and is included in accounts payable and accrued liabilities. The accrued amount is subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreement, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency and these amounts become known to the Company.
- c) During the year ended December 31, 2015, the Company settled a contingent liability totaling \$145,512 with a third party who performed oil field services for the Company. The obligation is secured by a take in kind revenue arrangement from one of its gas wells to and in favor of the third party in case of default. The settlement was fair valued at \$107,912 using Level II valuation techniques with a discount rate of 25%. The Company is required to make 35 monthly payments of \$4,300 starting July 1, 2015 to May 1, 2018 and final installment of \$3,800 to be paid on June 1, 2018. As of December 31, 2017, the Company has not made payment in line with the agreed repayment schedule (December 31, 2016 - \$34,271). Accordingly, the remaining balance of \$87,773 is now considered as due on demand.
- d) A former supplier of the Company submitted a claim against Emerald Bay for \$78,474 USD (\$98,446 CAD) of the amount the supplier is seeking for breach of written agreement for well pumping equipment and services on a well situated in Guadalupe County, Texas in September of 2014. The Company made a counter claim against the supplier asserting no liability based upon defective equipment having been leased by the Plaintiff. As at December 31, 2017 the lawsuit was still in pending status with no expected date of settlement.

## PROPOSED TRANSACTIONS

The Company currently owns approximately 5.28% of the shares of an electric generation project in Nevis, Alberta. At the time of this writing the Company is in discussions to divest its shares in the project to reduce the Company's Credit Facility. Management feels that divesting of this asset will enhance the Company's focus on the opportunities that now exist in South Texas.

## FINANCIAL RISK MANAGEMENT

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

### Fair values

The Company's financial instruments consist of cash and cash equivalents, short-term investments, available for sale investments, trade and other receivables, accounts payable and accrued liabilities, the shareholder indemnity, the loan, the convertible debt and the demand loan.

<b>Financial instrument</b>	<b>Classification</b>	<b>Carrying value</b>	<b>Fair value</b>
		<b>\$</b>	<b>\$</b>
Cash and cash equivalents	Fair value through profit and loss	124,949	124,949
Short-term investments	Fair value through profit and loss	313,625	313,625
Trade and other receivables	Loans and receivables	219,245	219,245
Investment in partnership	Available for sale	407,677	407,677
Accounts payable and accrued liabilities	Other financial liabilities	5,163,922	5,163,922
Shareholder indemnity	Other financial liabilities	322,624	322,624
Long Term Loan	Other financial liabilities	6,193,083	6,193,083
Convertible debt	Other financial liabilities	363,175	363,175
Credit facility	Other financial liabilities	3,980,263	3,980,263
Short term loan	Other financial liabilities	501,800	501,800
Demand loan	Other financial liabilities	125,500	125,500
Short-term loan	Other financial liabilities	225,000	225,000
Other liabilities	Other financial liabilities	167,028	87,773

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level I are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level III valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

At December 31, 2017, the Company's cash and cash equivalents and short-term investments have been subject to Level I valuation. The investment in the Partnership is level II.

### b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint interest partners and oil and natural gas marketers.

Virtually all of the Company's trade and other receivables are from companies in the oil and gas industry and are subject to normal industry credit risks. Credit risks arise principally from the amounts owing to the Company from oil and natural gas marketers and joint interest partners. Management does not believe that any significant concentration of trade and other receivables exists that will result in any loss to the Company based on past payment experience. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish relationships with large marketers. However, the receivables are from participants in the petroleum and natural gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations and escalating costs. The Company does not typically obtain collateral from oil and natural gas marketers or others in the event of non-payment.

At December 31, 2017, the Company's trade and other receivables have been aged as follows:

<b>Days outstanding</b>	<b>December 31, 2017</b>	December 31, 2016
	<b>\$</b>	<b>\$</b>
0-30 days	<b>2,079</b>	1,179
31-60 days	<b>19,581</b>	2,185
61-90 days	<b>45,353</b>	1,129
Greater than 90 days	<b>152,232</b>	76,666
Total	<b>219,245</b>	81,159

Amounts outstanding for more than 90 days are considered past due. During the year ended December 31, 2017, the Company wrote off \$180,421 of trade and other receivables (December 31, 2016 – \$52,869 (recovery)). As at December 31, 2017, a provision for doubtful accounts of \$34,613 has been recorded by the Company (December 31, 2016 - \$48,964).

Cash and cash equivalents consist of cash bank balances held in both interest and non-interest bearing accounts. The Company manages credit exposure of cash by selecting financial institutions with high credit ratings.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At December 31, 2017, the Company's maximum exposure to liquidity risk is the total current liabilities of \$17,529,456 (December 31, 2016 - \$7,047,301) (Note 1).

The current liabilities and commitments are due as follows:

Accounts payable and accrued liabilities	5,163,922	Due within 90 days
Convertible debt (note 14)	363,175	Due on demand
Short term loan (note 16)	501,800	Due on demand
Short term loan (note 16)	225,000	Due on demand
Demand loan (note 15)	125,500	Due on demand
Credit facility (note 17 (b))	3,980,263	Due on demand
Notes payable (note 17 (a))	6,193,083	Due on demand
Shareholder indemnities (note 21(b))	322,624	Due on demand
Short-term loan (note 16)	501,800	Due on demand
Other liabilities (note 20 (c))	167,028	Due on demand

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity through operations, debt financing, or raising equity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month.

d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's loss or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing returns.

(i) Commodity price risk:

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand. All of the Company's oil and gas production is sold at spot rates exposing the Company to the risk of price movements.

The Company had no commodity call options outstanding as at December 31, 2017.

(ii) Currency risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States and a portion of its expenses are incurred in United States dollars. The Company does not hedge its exposure to fluctuations in the exchange rate. Future changes in exchange rates could have a material effect on the Company's business including its intended capital plans, its financial condition and results of operations.

Certain of the Company's financial instruments are exposed to fluctuations in the United States dollar, including cash and cash equivalents, trade and other receivables and accounts payable and accrued liabilities. As at December 31, 2017, an increase or decrease of 10% to the foreign exchange rate between the United States dollar and the Canadian dollar applied to the average level of United States denominated cash and cash equivalents would have had approximately a \$15,250 (December 31, 2016 - \$16,100) impact on the Company's comprehensive loss for the year.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2017, all of the Company's debt, including the loan, the convertible debt, the demand loan and the short-term loan, bears fixed interest rates and accordingly, is not subject to market interest rate fluctuations.

The Company has no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2017 or 2016.

e) Capital management

The Company's capital consists of shareholders' deficit, the loan, the convertible debt and working capital. The Company will adjust its capital structure to manage its current and future debt, drilling programs and potential corporate acquisitions through the issuance of shares, sourcing additional debt financing and adjustments to capital spending. The Company's objective for managing capital is to maximize long-term shareholder value by ensuring adequate capital to achieve the Company's objectives. The Company is not subject to any external capital requirements.

Management reviews its capital management approach on an ongoing basis and believes its current approach is reasonable. There has been no change in management's approach to capital management during the year.

## SEGMENTED INFORMATION

The Company's primary operations are limited to a single industry being the acquisition, exploration for and development of petroleum and natural gas.

Product segmentation is as follows:

<b>Revenue</b>	<b>Oil</b>	<b>Natural Gas</b>	<b>NGL's</b>	<b>Total</b>
December 31, 2017 (\$)	375,762	21,947	37,719	435,458
December 31, 2016 (\$)	-	13,440	-	13,440

Geographical segmentation is as follows:

	<b>December 31, 2017 (\$)</b>		
	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Petroleum and natural gas sales	31,604	403,854	435,458
Depletion, depreciation and impairment	471,218	1,797,277	2,268,495
Net loss	(3,749,224)	14,623	(3,734,601)
Property and equipment	283,976	5,834,011	6,117,987
Exploration and evaluation assets	-	2,939,539	2,939,532
Share of investment in PRI	-	-	-
Investment in Partnership	407,677	-	407,677
Total liabilities	4,300,291	12,742,104	17,042,395

  

	<b>December 31, 2016 (\$)</b>		
	<b>Canada</b>	<b>United States</b>	<b>Total</b>
Petroleum and natural gas sales	13,440	-	13,440
Equity loss on investment in PRI	11,701	310,985	322,686
Depletion, depreciation and impairment	699,700	370,180	1,069,880
Net loss	38,958	4,616	43,574
Property and equipment	-	1,799,531	1,799,531
Exploration and evaluation assets	157,425	157,425	314,850
Investment in PRI	221,156	221,155	442,311
Investment in Partnership	4,787,352	2,686,263	7,473,615
Total liabilities	4,920,739	2,750,117	7,670,856

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the Consolidated Financial Statements of changes in such estimates in future periods could be significant.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Specific amounts and disclosures affected by estimates and assumptions are:

### Significant judgments

#### *Determination of cash-generating units (“CGU”)*

Property and equipment are aggregated into CGUs based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company’s CGUs is subject to management’s judgment.

#### *Functional currency determination*

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21. The Effects of Changes in Foreign Exchange Rates and may involve certain judgements to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.

### Significant estimates and assumptions

#### *Reserves*

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to proved reserves determined in accordance with the Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Oil and gas reserves are also used to evaluate impairment of developed property and equipment (“PP&E properties”). Commercial reserves are determined using estimates of oil and natural gas in place, recovery factors, discount rates and forward future prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on the statement of comprehensive loss as further information becomes available and as the economic environment changes.

#### *Decommissioning liabilities*

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning obligations and related accretion expense require estimates regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating costs, future removal technologies in determining the removal costs, and discount rates to determine the present value of these cash flows.

### *Exploration and evaluation (“E&E”) assets*

The accounting policy for E&E assets is described in note 3. The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances as to whether economic quantities of reserves will be found.

### *Share-based compensation*

The fair value of stock options and warrants granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company’s share price on the measurement date, the exercise price of the option, the expected volatility of the Company’s shares, the expected life of the options, expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical share price in the publicly traded markets. The expected life of the options is based on historical experience and estimates of the holder’s behavior. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited and the rate is adjusted to reflect the actual number of options that vest.

### *Recoverability of assets*

The Company assesses impairment on its assets that are subject to amortization when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The Company used the calculation of fair value less costs to sell to determine the fair value of its CGUs. In determining the fair value less costs to sell, the amount is most sensitive to the future commodity prices, discount rates, and estimates of proved and probable reserves, to determine an implied fair value of the CGU being tested.

### *Provision for doubtful accounts*

The provision for doubtful accounts is reviewed by management on a monthly basis. Trade receivables are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. Management makes these assessments after taking into consideration the customer’s payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company’s historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer’s ability to fulfill its payment obligations can change suddenly and without notice.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

Certain pronouncements were issued by “IASB” or International Financial Reporting Interpretation Committee (“IFRIC”) that are mandatory for accounting periods beginning after January 1, 2017 or later periods.

The following new accounting standards, amendments to accounting standards and interpretations, have not been early adopted in these consolidated financial statements. The Company is currently assessing the impact, if any, of this new guidance on the Company’s future results and financial position:

**IFRS 9, “Financial Instruments”:** In July 2014, the IASB completed the final phase of its project to replace IAS 39, the current standard on the recognition and measurement of financial instruments. IFRS 9 is now the new standard which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 provides a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. Hedge accounting requirements have also been updated in the new standard and are now more aligned with the risk management activities of an entity. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted; however, if an entity elects to apply this standard early, it must disclose that fact and apply all of the requirements in this standard at the same time. It is

anticipated that the adoption of IFRS 9 will not have a material impact on the Company's consolidated financial statements.

IFRS 15, "Revenue from Contracts with Customers:" IFRS 15 was issued in May 2014 and applies to contracts with customers, excluding, most notably, insurance and leasing contracts. IFRS 15 prescribes a framework in accounting for revenues from contracts within its scope, including (a) identifying the contract, (b) identify separate performance obligations in the contract, (c) determine the transaction price of the contract, (d) allocate the transaction price to the performance obligations and (e) recognize revenues when each performance obligation is satisfied. This standard comes into effect January 1, 2018 and is applied retrospectively. IFRS 15 also prescribes additional financial statement presentations and disclosures. The Company's evaluation of IFRS 15 is ongoing and not complete. The IASB has issued and may issue in the future, interpretative guidance, which may cause its evaluation to change. The Company does not currently believe IFRS 15 will have a material effect on its consolidated financial statements.

IFRS 16, "Leases": In January 2016, the IASB issued the standard to replace IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company does not currently believe IFRS 16 will have a material effect on its consolidated financial statements.

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares issuable in series. As of the date hereof, the Company's issued share capital and the outstanding securities that are convertible into or exercisable or exchangeable for any voting or equity securities of the Company is as follows:

	<u>April 30, 2018</u>	<u>December 31, 2017</u>
Common Shares (i)	<b>277,276,856</b>	<b>247,276,856</b>
Warrants (ii)	78,666,667	48,666,667
Stock Options (iii)	6,700,000	6,700,000

### Notes:

- (i) On January 3, 2018, the Company completed second and final tranche of a private placement, issuing 10,000,000 units (the "Unit"). Each Unit was issued at \$0.015 for total proceeds of \$150,000, and consists of one common share of the Company and one share purchase warrant (the "Warrant").  
On April 27, 2018 the Company completed a private placement, issuing 20,000,000 units (the "Unit"). Each Unit was issued at \$0.025 for total proceeds of \$500,000 and consists of one common share of the Company and one share purchase warrant (the "Warrant").
- (ii) 32,000,000 of the warrants entitle the holder to acquire one additional common share for \$0.05 per share until August 23, 2018.  
16,666,667 of the warrants entitle the holder to acquire one additional common share for \$0.05 per share until December 20, 2018.  
10,000,000 of the warrants entitle the holder to acquire one additional common share for \$0.05 per share until January 3, 2019.  
20,000,000 of the warrants entitle the holder to acquire one additional common share for \$0.05 per share until April 27, 2019.
- (iii) 6,700,000 of the Stock Options entitle the holders to acquire an equal number of common shares at \$0.05 per share until October 18, 2018

The following table sets forth, to the best of the knowledge of the directors and executive officers of the Corporation, as at the date hereof, the only persons, corporations or other entities (other than securities depositories) who beneficially

own, directly or indirectly, or exercise control or discretion over voting securities carrying more than 10% of the voting rights attached to the shares of the Corporation.

<u>Name and Municipality of Residence</u>	<u>Type of Ownership</u>	<u>Number of Common Shares</u>	<u>Percentage</u>
Clarence Wagenaar	Direct and Indirect <sup>(1)</sup>	<b>33,081,000</b>	<b>11.93%</b>

**Notes:**  
Aggregating the securities of the Corporation owned by All Investments Ltd. and Mr. Wagenaar personally, Clarence Wagenaar may be considered to control 33,081,000 Common Shares of the Corporation.

## **SUBSEQUENT EVENTS**

On January 3, 2018, the Company completed a private placement (the "Private Placement"), issuing 10,000,000 unites (the "Unit"). 2,000,000 of these Units were acquired by an officer of the Corporation and 6,500 were acquired by an insider of the Corporation. Each Unit was issued at \$0.015 for total proceeds of \$150,000, and consists of one common share of the Company and one share purchase warrant (the "Warrant"). Each Warrant entitled the holder to purchase one additional common share of the company at \$0.05 per share, exercisable for 1 year from the original issue date.

On April 27, 2018, the Company completed a private placement (the "Private Placement"), issuing 20,000,000 unites (the "Unit"). 200,000 of these Units were acquired by an officer of the Corporation and 12,000,000 were acquired by an insider of the Corporation. Each Unit was issued at \$0.025 for total proceeds of \$500,000, and consists of one common share of the Company and one share purchase warrant (the "Warrant"). Each Warrant entitled the holder to purchase one additional common share of the company at \$0.05 per share, exercisable for 1 year from the original issue date.