

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") interim Consolidated Financial Statements for the three months ended March 31, 2018 and the 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. The Company is listed on the TSX Venture Exchange under the symbol "EBY". The MD&A is dated May 30, 2018.

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.

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 March 31, 2018, the Company had not yet achieved profitable operations, had an accumulated deficit of \$23,204,608 since its inception (December 31, 2017 - \$22,785,516), had negative cash flows from operations of \$402,235 (December 31, 2017 \$832,533) and had a working capital deficiency of \$16,661,152 (December 31, 2017 - \$16,350,342) (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, acquired new or increased interests in several properties, and at the time of this writing has completed three Private Placements since August 2017.

During 2017 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 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 2017 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 may do so at a future date as the well showed good Austin Chalk potential during drilling.

During the first quarter of 2018:

- The Company successfully re-entered and completed the Kuhn 3 well in the upper Austin Chalk formation and initial test rates for the well were 80 barrels of oil per day of oil including the associated gas. The well is now on production.
- The Company leased the mineral rights to 91.72 acres adjacent to the Kuhn lease at the Wooden Horse play. At the time of this writing, the Company has also recently acquired minerals to an additional 134 acres adjacent to the Kuhn lease
- The Company 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. Oil production from the sixteen MarPat wells is 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 earned a 25-per-cent carried working interest in the wells.
- The Company closed the final tranche of a private placement for proceeds of \$250,000.

At the time of this writing, the Company has recently completed drilling operations of the Kuhn A5 well as an Austin Chalk target. The Company has identified potential in the Buda and Austin Chalk formations and completion operations to test both formations are being scheduled.

At the time of the writing, subsequent to the end of the quarter, the Company sold its interest in the Horseshoe Power Limited Partnership for its cost of \$407,676. Proceeds were used to reduce outstanding debt.

Also subsequent to the end of the quarter, the Company has arranged to settle \$924,658.90 of debt to a lender of the Company through the issuance of shares at \$0.05/share. Total shares to be issued will be 18,493,178.

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 YEAR TO DATE FINANCIAL INFORMATION

	Three months ended March 31	
	2018	2017
FINANCIAL		
Gross revenue	265,981	4,471
Total assets	11,291,576	2,978,212
Cash flows provided by (used in) operations	(53,522)	33,161
Net comprehensive loss	402,235	137,312
Per share – basic and diluted	(0.00)	(0.00)
Exploration and evaluation expenditures	394,196	55,603
OPERATIONS		
Production sales		
Oil (BBLs/d)	37	-
Natural gas (MCF/d)	18	17
NGL (BBLs/d)	-	-
Total (BOE/d @ 6 MCF: 1 BBL)	40	3
Average pricing		
Natural gas (\$/mcf)	2.66	2.82
Oil/NGL's combined (\$/bbl)	75.58	-
Combined (\$/boe)	73.88	16.92
Expenses		
Production expense & transportation (\$/BOE)	39.29	16.73
Royalty expense (\$/BOE)	.67	1.11
Net Back Combined (\$/BOE)	33.92	(0.92)

Financial and Operations Results

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.

Consolidated petroleum and natural gas revenue was \$265,981 for the three months ended March 31, 2018, from unconsolidated revenue of \$4,471 for the three months ended March 31, 2017. The Company's petroleum and natural gas revenue outside of the consolidated PRI revenue was nominal during the three months ended March 31, 2018 due to the following factors: (i) currently the Company's primary focus is on its exploration and evaluation project in Guadalupe County, Texas, where any test revenue generated is netted from capital spending and certain wells are now

just entering the production phase; (ii) in previous years, the Company has disposed of primarily all of its producing oil and natural gas assets and only began re-acquiring assets in 2017 including the PRI asset; and (iii) certain of the Company's remaining oil and natural gas assets in Canada continue to be shut-in to preserve existing reserves while the natural gas and oil prices remain low. The Canadian assets will remain shut-in and additional natural gas drilling programs within Canada will remain on hold until prices rebound.

Natural gas prices were \$2.66/MCF in the three months ended March 31, 2018 versus \$2.82/MCF for the three months ended March 31, 2017. The Company had no oils sales in the prior period, but in the current period the Company received average oil sale prices of \$75.58/bbl. The average sales price on a BOE basis was \$73.88 in the three months ended March 31, 2018, compared to \$16.92 in the three months ended March 31, 2017 due to the acquisition of the PRI shares and the consolidation of the financials.

OPERATING RESULTS

Sales – Three months ended	Average Daily Volumes		Average Prices	
	March 31, 2017	March 31, 2017	March 31, 2018	March 31, 2017
Natural Gas (mcf)	18	17	2.66	2.82
Oil (bbls)	37	-	75.58	-
NGL (bbls)	-	-	-	-
Barrels of Oil Equivalent (boe)	40	3	73.88	16.92

During the period ended March 31, 2018, the Company continued to focus its resources toward its current and future exploration program in Guadalupe County, Texas. Sales from recent production in Guadalupe County took place subsequent to the quarter end and will be reflected in Q2.

For the three months ended March 31, 2018 natural gas sales increased slightly to 18 MCF/d compared to 17 MCF/d during the same period in 2017 as the Company added assets in the Edson, Alberta area during the summer of 2017.

Natural gas prices were \$2.66/MCF during the three months ended March 31, 2018 compared to \$2.88/MCF during the same period in 2017.

Oil prices were \$75.58/bbl during the three months ended March 31, 2018. The Company had no oil sales during the same period in 2017.

NGL sales on a daily basis remained negligible, generating only minimal revenue during the three months ended March 31, 2017 and 2016.

During the three months ended March 31, 2018, the average sales volume on a BOE/d basis increased to 40 BOE/d compared to 3 BOE/day for the three months ended March 31, 2017.

The average sales price on a BOE basis was \$73.88/BOE during the three months ended March 31, 2018, from \$16.92/BOE received in the three months ended March 31, 2017 as Natural Gas sales were minimal and the Company consolidates oil sales with its subsidiary PRI, which the Company now owns 75%.

GENERAL & ADMINISTRATIVE EXPENSES

After recoveries, general and administrative expenses (“G&A”) increased to \$258,228 during the three months ended March 31, 2018 from \$113,131 for the same period during 2016. The increase in the Company’s G&A is reflective the Company’s initiatives to move forward with exploration in South Texas.

	General & Administrative Expenses	
	March 31, 2018 (\$)	March 31, 2017 (\$)
Net G&A expense	258,228	113,131

DECOMMISSIONING LIABILITIES

Decommissioning liabilities are the present value of management’s estimate of future costs to be incurred to properly abandon and reclaim the properties held by the Company. Accretion expense is the increase in the decommissioning liability resulting from the passage of time. Decommissioning liabilities decreased to \$968,985 as at December 31, 2017 from \$921,051 as at March 31, 2018.

DEPLETION & DEPRECIATION

Depletion and depreciation expense, an accounting measure of our finding and on-stream costs, is calculated using the ratio of capital costs to proven reserves. Capital costs include the net book value of historical costs incurred and estimated future expenditures to develop proved reserves.

	Depletion and Depreciation	
	March 31, 2018 (\$)	March 31, 2017 (\$)
Depletion and depreciation	41,554	2,188

During the three months ended March 31, 2018, depletion and depreciation expenses were \$41,554, compared to \$2,188 during the same period in 2017.

CAPITAL EXPENDITURES

	Three months ended March 31,	
	2018 (\$)	2017 (\$)
Exploration and evaluation expenditure	394,196	55,603
Capital expenditures	-	-

The exploration and evaluation expenditures related to the Company’s exploration program in Texas significantly increased period over period as the Company began its next phase of the exploration process to target the Austin Chalk and other formations.

Capital expenditures on petroleum and natural gas property and equipment were nil, which is reflective of the Company’s exploration program.

QUARTERLY FINANCIAL INFORMATION

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

Quarterly Financial Information (\$000 except per share and unit values)	Mar 31 2018	Dec 31 2017	Sept 30 2017	June 30 2017	Mar 31 2017	Dec 31 2016	Sept 30 2016	June 30 2016
Petroleum and natural gas sales	265	219	210	10	3	5	3	2
Net loss	(402)	(2,984)	(566)	(322)	(137)	(532)	(253)	(172)
Net loss per share								
Basic and diluted	(0.00)	(0.01)	0.00	0.00	(0.00)	(0.00)	(0.00)	0.00
Average daily sales								
Natural gas (MCF/d)	18	15	15	19	17	18	18	18
Oil/NGL (BBLs/d)	37	36	37	-	-	-	-	-
Barrels of oil equivalent (BOE/d)	40	40	40	3	3	3	3	3
Average sales prices								
Natural Gas (\$/MCF)	2.66	2.60	2.57	2.89	2.82	3.05	2.00	1.15
Oil/NGL (\$/BBL)	75.58	59.66	57.68	-	-	-	-	-
Sales price of oil equivalent (\$/BOE)	73.88	60.15	59.21	20.66	16.92	18.83	10.80	6.90
Operating costs (\$/BOE)	39.29	39.75	41.24	8.85	16.73	9.05	13.28	18.59
Royalty Expense (\$/BOE)	.67	1.57	1.47	.41	1.11	5.47	(0.78)	.45
Operating netback (\$/BOE)	33.92	18.83	16.50	11.57	(0.92)	4.31	(3.30)	(12.14)

Explanation of Quarterly Variances

On a quarter by quarter basis, production volumes, and accordingly petroleum and natural gas sales, have increased with the consolidation of Emerald Bays financial with PRI. Canadian production remained minimal, with little fluctuation. The Company continues to focus on the exploration and development of its Texas assets in Guadalupe County. As those assets are deemed exploratory, all revenue and associated operating costs are deemed pre-production and are capitalized to exploration and evaluation assets.

LIQUIDITY & CAPITAL RESOURCES

In order to resolve its working capital deficiency of \$16,661,152, 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.

At the time of this writing, the Company recently arranged to settle \$924,658.90 of debt to a lender of the Company through the issuance of shares at \$0.05/share. Total shares to be issued will be 18,493,178.

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.

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: \$0.015per 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, 2018. 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 (March 31, 2017 - \$Nil) were charged by directors of the Company all of which was recorded in the consolidated statement of comprehensive loss.
- (ii) Aggregate fees of \$Nil (March 31, 2017 - \$72,902) 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 March 31, 2018 was \$351,102 owing to officers of the Company (March 31, 2017 - \$359,428).

Key management compensation

During the period ended March 31, 2018, \$98,393 (December 31, 2017 - \$67,023) in management compensation was incurred.

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.

PROPOSED TRANSACTIONS

The Company does not have any proposed transactions at this time that have not been disclosed.

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.

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>May 30, 2018</u>	<u>December 31, 2017</u>
Common Shares (i)	277,276,856	247,276,856
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 ⁽¹⁾	33,081,000	11.93%

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

Subsequent events have been evaluated through May 30, 2018, the date the consolidated financial statements are available to be issued.

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.

On May 1, 2018, the Company sold its interest in the Horseshoe Power Limited Partnership for its cost of \$407,676. Proceeds of the sale were used to reduce the outstanding balance of the Company's credit facility.

On May 29, 2018, the Company arranged to settle \$924,658.90 of debt to a lender of the Company through the issuance of shares to the lender at \$0.05/share. Total shares to be issued will be 18,493,178.