

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 and nine months ended September 30, 2016 and the audited annual Consolidated Financial Statements for the year ended December 31, 2015. 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". **This Amended MD&A is dated March 20, 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.

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, 2015. 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 September 30, 2016, the Company had not yet achieved profitable operations, had accumulated a deficit of \$18,622,896 since its inception (December 31, 2015 - \$18,084,385), had negative cash flows from operations of \$462,707 (December 31, 2015 - \$289,182) and had a working capital deficiency of \$6,127,110 (December 31, 2015 - \$6,481,015) (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 have been 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.

SELECTED YEAR TO DATE FINANCIAL INFORMATION

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
FINANCIAL				
Gross revenue	3,274	20,279	8,242	36,345
Total assets	3,186,533	3,125,358	3,186,533	3,125,358
Cash flows used in operations	245,155	275,147	462,707	1,006,727
Net comprehensive (loss) income	(296,471)	(298,282)	(624,682)	349,393
Per share – basic and diluted	(0.00)	(0.00)	0.00	0.00
Capital expenditures	237	23,306	15,546	24,630
Exploration and evaluation expenditures	45,498	140,861	172,955	240,681
Loan	1,025,000	800,000	1,025,000	800,000
Demand loan	123,000	123,000	123,000	123,000
Convertible debt	383,256	408,625	383,256	408,625
Short Term Loan	327,065	-	327,065	-
OPERATIONS				
Production sales				
Oil (BBLs/d)	-	-	-	-
Natural gas (MCF/d)	18	33	18	22
NGL (BBLs/d)	-	-	-	-
Total (BOE/d @ 6 MCF: 1 BBL)	3	6	3	4
Average pricing				
Natural gas (\$/MCF)	2.00	3.61	1.65	3.47
Oil and NGL's(\$/BBL)	-	56.32	-	55.37
Combined (\$/BOE)	10.80	24.08	9.91	24.12
Expenses				
Production expense & transportation (\$/BOE)	(13.28)	22.73	(16.21)	21.18
Royalty expense (\$/BOE)	(0.82)	(0.82)	(0.78)	(0.89)
Net Back Combined (\$/BOE)	(3.30)	2.17	(7.08)	2.05

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.

Petroleum and natural gas revenue was \$3,274 and \$8,242 for the three and nine months ended September 30, 2016 respectively, from revenue of \$20,279 and \$36,345 for the three and nine months ended September 30, 2015. The Companies petroleum and natural gas revenue was nominal during the three and nine months ended September 30, 2015 due to the following factors: (i) the Company's current primary focus is on its exploration and evaluation project in Guadalupe County, Texas, where any test revenue generated is netted from capital spending; (ii) in previous years, the Company has disposed of primarily all of its producing oil and natural gas assets; and (iii) substantially all of the Company's remaining oil and natural gas assets 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 fluctuated to \$2.00/MCF and \$1.65/MCF, respectively, in the three and nine months ended September 30, 2016 versus \$3.61/MCF and \$3.47/MCF, respectively, for the three and nine months ended September 30, 2015. The average sales price on a BOE basis was \$10.80 and \$9.91, respectively, in the three and nine months ended September 30, 2016, compared to \$24.08/BOE and \$24.12/BOE, respectively, in the three and nine months ended September 30, 2015.

During the three and nine months ended September 30, 2016, the average sales volume on a BOE/d basis decreased slightly to 3 BOE/d, and 3 BOE/d, respectively, compared with 6 BOE/d and 4 BOE/d, respectively, during the three and nine months ended September 30, 2015.

During the three and nine months ended September 30, 2016, cash flows used in operations were \$245,155 and \$462,707, respectively, compared to \$274,147 and \$1,006,727, respectively, during the three and nine months ended September 30, 2015. The year to date increase is primarily due to a lower operating income and working capital fluctuations.

OPERATING RESULTS

Sales – Nine months ended	Average Daily Volumes		Average Prices	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Natural Gas (mcf)	18	22	1.65	3.47
Oil (bbls)	-	-	-	57.07
NGL (bbls)	-	-	-	12.00
Barrels of Oil Equivalent (boe)	3	4	9.91	24.12

During the period ended September 30, 2016, the Company continued to focus its resources toward its exploration program in Guadalupe County, Texas.

For the nine months ended September 30, 2016 natural gas sales decreased to 18MCF/d compared to 22 MCF/d during the same period in 2015 as a significant portion of the Canadian assets remain shut-in during the current period to preserve existing reserves while the natural gas prices remain low, as well as previously drilled wells not being brought on line until natural gas prices rebound.

Natural gas prices decreased during the nine months ended September 30, 2016 to \$1.65/MCF versus \$3.47/MCF during the same period in 2015.

Oil and NGL production for the nine months ended September 30, 2016 was negligible, remaining consistent with the period ended September 30, 2015, and is primarily due to the sale of the remaining US producing assets in the fourth quarter of 2013, certain assets continuing to be shut-in and the Company's focus on the exploration project in Texas. During the nine months ended September 30, 2016 the average price received for oil was nil versus \$57.07/barrel during the nine months ended September 30, 2015.

During the nine months ended September 30, 2016, the average sales volume on a BOE/d basis decreased to 3 BOE/d compared with 4 BOE/d for the nine months ended September 30, 2015.

The average sales price on a BOE basis was \$9.91/BOE during the nine months ended September 30, 2016, decreasing from \$24.12/BOE received in the nine months ended September 30, 2015.

On a barrel of oil equivalent basis, during the nine months ended September 30, 2016 and 2015 natural gas accounted for the majority of the total sales.

FINANCIAL 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.

Nine months ended September 30,	2016 (\$)	2015 (\$)
Petroleum and natural gas revenue	8,242	36,345
Royalties, petroleum and natural gas	(646)	(993)
Production expenses, petroleum and natural gas	(13,666)	(44,918)
Operating netback, petroleum and natural gas	(6,070)	(9,566)
Net income (loss)	(538,511)	341,791
Net income (loss) per share (basic and diluted)	0.00	0.00
Revenue per BOE	9.91	24.12
Royalty per BOE	0.78	0.89
Operating costs per BOE	16.21	21.18
Operating netback per BOE	(7.08)	2.05

Petroleum and natural gas revenue decreased to \$8,242 for the nine months ended September 30, 2016 from revenue of \$36,345 during the nine months ended September 30, 2015. Revenue on a BOE basis decreased to \$9.91/BOE from \$24.12/BOE during the nine months ended September 30, 2015.

Royalties decreased to \$646 during the nine months ended September 30, 2016 compared to the same period in 2015 of \$993. Royalty per BOE for the nine months ended September 30, 2016 averaged \$0.78/BOE, which was a decrease from \$0.89/BOE during the nine months ended September 30, 2015.

Production expenses in the nine months ended September 30, 2016 decreased to \$13,666 from the nine months ended September 30, 2015 of \$44,918. Operating costs per BOE for the nine months ended September 30, 2016 decreased to \$16.21/BOE from \$21.18/BOE in the nine months ended September 30, 2015.

Operating netback from petroleum and natural gas sales decreased to (\$6,070) during the nine months ended September 30, 2016 from (\$9,566) during the nine months ended September 30, 2015. Operating netback per BOE decreased to (\$7.08)/BOE from \$2.05/BOE.

The Company's revenue decrease was due to certain Canadian assets continuing to be shut-in to preserve existing reserves while the natural gas prices remain low and the reduction in oil prices since September 30, 2015.

Royalties per unit of Production

Nine months ended	September 30, 2016	September 30, 2015
Gas (\$/mcf)	0.03	0.04
Oil (\$/bbl)	-	7.61
NGL (\$/bbl)	-	-
Total (\$/boe)	0.78	0.89

The royalties per MCF for natural gas decreased to \$0.03/MCF from \$0.04/MCF in 2015. Oil royalties decreased to nil from \$7.61/BBL in 2015. Combined royalties for all products decreased to \$0.78/BOE in 2016 from \$0.89/BOE the previous period.

GENERAL & ADMINISTRATIVE EXPENSES

After recoveries, general and administrative expenses (“G&A”) were \$210,540 and \$386,829, respectively, during the three and nine months ended September 30, 2016 from \$181,053 and \$386,829, respectively, for the same period during 2015. The year to date decrease in the Company’s G&A is reflective of the Company’s efforts to control overhead cost while it continues to expand its activities and progress with the exploration program in Texas.

	General & Administrative Expenses			
	Three months ended September 30		Nine months ended September 30	
	2016 (\$)	2015 (\$)	2016 (\$)	2015 (\$)
Net G&A expense	210,540	181,053	386,829	511,310

STOCK BASED COMPENSATION

During the three and nine months ended September 30, 2016, the Company recognized share-based payment expense of \$nil, in the statement of comprehensive (loss) income (September 30, 2015 – nil and nil, respectively).

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 increased from \$446,649 as at December 31, 2015 to \$461,980 as at September 30, 2016.

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			
	Three months ended September 30		Nine months ended September 30	
	2016 (\$)	2015 (\$)	2016 (\$)	2015 (\$)
Depletion and depreciation	2,755	13,976	13,682	23,606

During the three and nine months ended September 30, 2016, depletion and depreciation expenses were \$2,755 and \$13,682, respectively, compared to \$13,682 and \$23,606 during the same period in 2015. The year to date decrease was primarily due to the continued reduction in production during the current year.

CASH FLOWS FROM OPERATIONS

During the three and nine months ended September 30, 2016, cash flows used in operations were \$245,155 and \$462,707, respectively, compared to \$275,147 and \$1,006,727 during the same period in 2015. Funds used in operations during the three and nine months ended September 30, 2016 were \$282,454 and \$439,665, respectively, from the previous year’s \$352,690 and \$888,050. The year to date increase in cash flows used in operations and funds used in operations was primarily due to the reduction net income, lower petroleum and natural gas revenue, and for cash flows used in operations, working capital fluctuations.

CAPITAL EXPENDITURES

	Nine months ended September 30,	
	2016 (\$)	2015 (\$)
Exploration and evaluation expenditure	172,955	240,681
Capital expenditures	15,546	24,630

The exploration and evaluation expenditures related to the Company's exploration program in Texas have decrease slightly over the prior period but the Company continues to focus on the exploration of its Guadalupe oil and gas assets. The assets have yet to show technological feasibility and commercial viability and accordingly are considered exploration and evaluation assets.

During the nine months ended September 30, 2015, the Company generated \$5,170 in test oil from an exploration well within Guadalupe County, which it sold to third parties and is considered pre-production revenue as it is necessary for the completion of the assets and in order to enter into full production. The associated costs to generate the test oil were (\$13,257). The pre-production revenue and costs have been offset against the exploration and evaluation costs incurred instead of being recognized within the consolidated statement of comprehensive (loss) income.

EQUITY INVESTMENT IN PRI

On June 29, 2015, the Company disposed of 60% of its ownership in Production Resources Inc. ("PRI"), a related party, for proceeds of \$1,291,500 to a party with an existing shareholding in PRI, and whose President is the Lender. PRI is related to the Company through common directors and officers. The proceeds received were used to settle working capital and debt commitments. The Company owed PRI \$253,000 which was repaid as part of this transaction. A gain was recorded in the statement of comprehensive income for \$1,143,066 for the difference between the proceeds received and the cost of the investment. This difference was recorded as a gain in the statement of comprehensive income (loss). The disposition reduced the Company's interest in the share capital of PRI from 25% to 10%, and accordingly the Company no longer accounts for the investment using the equity investment.

The investment in PRI as at September 30, 2016 is as follows:

	CDN \$
Net investment, December 31, 2014	\$297,744
Proportionate share of loss for the period up to the disposition	(50,354)
Disposition of ownership in the share capital	(148,434)
Fair value adjustment at date of disposition	254,578
Net investment, June 30, 2015	353,534
Fair value adjustment at December 31, 2015	(10,485)
Net investment, December 31, 2015	\$343,049
Fair value adjustment at September 30, 2016	(34,258)
Net investment, September 30, 2016	\$308,791

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)	Sept 30 2016	June 30 2016	Mar 31 2016	Dec 31 2015	Sept 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014
Petroleum and natural gas sales	3	2	3	1	20	11	5	17
Net (loss) income	(253)	(172)	(113)	(42)	(290)	891	(259)	(596)
Net (loss) income per share								
Basic and diluted	(0.00)	0.00	(0.00)	(0.00)	(0.00)	0.01	(0.00)	(0.00)
Average daily sales								
Natural gas (MCF/d)	18	18	19	20	33	34	(1)	25
Oil/NGL (BBLs/d)	-	-	-	1	-	-	-	1
Barrels of oil equivalent (BOE/d)	3	3	3	4	6	6	-	5
Average sales prices								
Natural Gas (\$/MCF)	2.00	1.15	1.80	2.43	3.61	3.37	(4.52)	3.47
Oil/NGL (\$/BBL)	-	-	-	47.85	56.32	56.03	53.42	75.17
Sales price of oil equivalent (\$/BOE)	10.80	6.90	10.85	17.91	24.08	22.60	79.15	31.44
Operating costs (\$/BOE)	13.28	18.59	15.39	18.13	22.73	3.43	597.19	115.03
Royalty Expense (\$/BOE)	(0.78)	.45	1.13	4.26	(0.82)	1.73	30.19	16.78
Operating netback (\$/BOE)	(3.30)	(12.14)	(5.67)	(4.48)	2.17	17.45	(548.23)	(100.38)

Explanation of Quarterly Variances

On a quarter by quarter basis, production volumes, and accordingly petroleum and natural gas sales, have remained minimal, with little fluctuation. During 2011, the Company sold a significant portion of the Canadian assets and as natural gas prices decreased significantly, certain of the remaining Canadian assets were shut-in until such time as commodity prices begin to increase. Since December 30, 2013, petroleum and natural gas sales have further declined due to the disposal of the remaining producing assets in the Somerset and Taylor-Ina counties during the fourth quarter of 2013.

The Company recorded net income of \$891,114 during the three months ended June 30, 2015 due to the gain recognized on the disposition of a portion of its interest in the share capital of PRI.

LIQUIDITY & CAPITAL RESOURCES

In order to resolve its working capital deficiency of \$6,127,110, and to access additional share equity, the Company will continue to emphasize its exploration program in Texas as well as the Nevis, Alberta Electricity Generation Program for which the Company has an interest in. The Company's Texas prospects should produce better returns due to higher oil prices compared with natural gas, greater drilling potential and more 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 assets and Electricity Generation Project.

Additionally, 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. The Company is currently working with its lenders and trade partners to lower existing loan facility interest rates as well as to reduce the amounts outstanding in trade payables

Furthermore, once the cease trade order is revoked the Company will resume the process of pursuing private placement participants to resolve the working capital deficiency and continue development of the assets outlined above. The Company has a long history of successful private placements and anticipates that it will be able to complete private placements in the future.

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.

Loan

On June 15, 2012, a corporation owned by a party who has a common significant shareholding (the "Lender") advanced \$1,500,000 to the Company under a loan agreement with a maturity date of August 15, 2013, which was later extended until August 15, 2014, with the same terms and conditions (the "Loan"). Interest on the Loan is 10% per annum, payable monthly, on the outstanding principal amount.

Pursuant to the Loan agreement, the Company issued to the Lender 5,000,000 share purchase warrants (the "Warrants"). Each Warrant was exercisable into one common share of the Company at a price of \$0.05 per common share until the expiry date of August 15, 2014. On April 9, 2014, the Warrants received regulatory approval and accordingly were valued as of this date at \$40,241 and were treated as a transaction cost, and were netted against the principal balance of the loan, which was accreted back up to the principal balance at the maturity date. The accretion of the Warrants was recorded as a non-cash finance expense in the consolidated statement of comprehensive income (loss). On August 15, 2014, the Warrants expired unexercised.

On October 2, 2014, the Company received approval to extend the maturity date of the Loan until August 15, 2015, with a 10% interest rate that compounds monthly (the "Extension"). Pursuant to the Extension, no warrants were offered, however a conversion feature enabling the Lender to convert any or all of the outstanding Extension into common shares of the Company at a conversion price of \$0.05 per common share at any time prior to the August 15, 2015, subject to regulatory approval. On April 17, 2015, the conversion feature on the Extension received regulatory approval and accordingly, on the issuance and extension, the loan was split between the liability and the conversion feature, which was recorded on the statement of financial position within equity. The liability portion was determined by subtracting

the fair value of the conversion feature from the principal amount of the loan. The liability portion was measured at amortized cost and was accreted up to the principal balance at the maturity date. The accretion was expensed as a finance expense in the consolidated statement of comprehensive income (loss) as finance expense. On August 15, 2015, the conversion feature expired unexercised. All other terms and conditions of the Extension remain unchanged. During the year ended December 31, 2015, the Lender advanced an additional \$225,000 to the Company under the same terms as the Loan. However, the additional advance was not included in the conversion feature.

The Company may, at any time, repay the Extension in full without notice or penalty. If the Company is in default of the requirements included in the Extension agreement or the Lender believes the Company's ability to repay the loan is impaired, the Lender may demand repayment of the Extension or accelerate the date for payment. During the nine months ended September 30, 2016, the Company incurred interest of \$76,875 (December 31, 2015 - \$105,208).

On June 29, 2015, the Company used part of the proceeds received from the disposition of a portion of its interest in PRI (note 4) to repay \$500,000 to the Lender.

The following table summarizes the accounting of the Loan:

	Loan \$
Balance, December 31, 2014	1,300,000
Transaction costs	(62,400)
Accretion of transaction costs	62,400
Re-payment of Loan	(500,000)
Receipt of additional funds	225,000
Balance, December 31, 2015 and September 30, 2016	1,025,000

Security for the New Loan consists of a General Security Agreement in favour of the Lender to include a specific assignment of production proceeds, and security over the US assets of the Company. The Lender has required the Company to submit to them certain reports including monthly production reports.

On June 29, 2015, the maturity date of the Extension was renewed until August 15, 2017 under the same terms and conditions, and included a new conversion feature with an expiry date of August 15, 2017. The new extension has not yet received regulatory approval. Thus, the Loan has been recognized as due on demand as the terms of the extension are not in effect until regulatory approval is received.

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 loan with a maturity date of one year. Pursuant to the Loan Agreement, if it is mutually agreed upon by both parties, the maturity date can be extended by an additional year. On January 1, 2014 and March 26, 2015, it was mutually agreed upon between the Lender and the Company to extend the loan under the same terms for an additional year to December 31, 2014 and December 31, 2015, respectively. Interest on the loan is 12% per annum, payable monthly, on the outstanding principal amount monthly. Security for the loan consists of a \$150,000 promissory note 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, 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 was to be treated consistently with the conversion feature included on the Loan (note 11). Any accrued interest thereon may have also been converted in to common shares, in accordance with the regulatory policies. As at December 31, 2015, the conversion feature on the March 26, 2015 extension had not yet received regulatory approval and accordingly no value was assigned to this feature. All other terms and conditions of the extension remained unchanged.

On March 26, 2015, the Lender advanced an additional loan amount of \$54,191USD (December 31, 2014 – additional amount of \$100,000 USD) to the Company under the same terms as the Loan Agreement. However, the additional advances were not included in the conversion feature. The modifications did not result in an extinguishment of the old convertible debt instrument and recognition of a new convertible debt instrument. The proceeds of the loan were used to continue the Company’s exploration program in Texas. The aggregate loan matures on December 31, 2016. During the nine months ended September 30, 2016, the Company incurred interest of \$40,013 (December 31, 2015 - \$94,236) on the aggregate amount 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 will be 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 September 30, 2016, the Company has drawn \$123,000 against the Demand Loan and has accrued interest of \$14,337, of which \$11,821 was incurred in the nine months ended September 30, 2016. The Company may repay the Demand Loan in full at any time prior to demand without notice or penalty.

Short-term loan

On April 29, 2016, the Company received a short-term loan (the “Short-term Loan”) from the Lenders associated with the Loan (note 11) and the Convertible debt (note 12), collectively the Lenders (the “Lenders”) in the amount of \$149,361. 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 matures on July 29, 2016. On July 4, 2016, the Lenders revised the maturity date of the Short-term Loan to December 1, 2016 and advanced an additional amount of \$200,639 with the same terms as the initial advance, bringing the total Short-term Loan to \$350,000. There were no additional set-up fees charged on the second advance. The proceeds of both the initial and second advance under the Short-term Loan is to provide capital for on-going operational and administrative costs of the Company. The Company may re-pay 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, at the option of the Lenders (the “Option”), the Lenders may acquire the 10% equity investment in PRI (note 4). 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.

At September 30, 2016, the total amount outstanding under the Short-term Loan is \$327,065, and accrued interest incurred pursuant to the Short-term loan \$8,838.

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>November 29, 2016</u>	<u>September 30, 2016</u>
Common Shares	208,610,189	208,610,189
Warrants (i)	50,000,000	50,000,000
Stock Options (ii)	6,700,000	6,700,000

Notes:

- (i) 50,000,000 of the warrants entitle the holder to acquire one additional common share for \$0.05 per share until February 19, 2016.
- (ii) 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

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTIES

- (i) During the year ended December 31, 1999, a promissory note was issued to 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. 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 will commence December 31, 2015, and will 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, 2015, the officer had not yet paid the initial instalment, and the term of the initial payment has been extended until December 31, 2016. 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.

Additional related party transactions not disclosed elsewhere in these Consolidated Financial Statements are as follows:

During the three months ended September 30, 2016:

- (i) Aggregate fees of \$nil (September 30, 2015 - \$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.

During the nine months ended September 30, 2016:

- (ii) Aggregate fees of \$nil (September 30, 2015 - \$17,232) 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 September 30, 2016 was \$296,451 owing to officers of the Company (December 31, 2015 - \$215,229).

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 has committed to monthly payments of \$2,771 for the lease of its office space until November 30, 2016.
- b) The Company has entered into various vehicle loan agreements and as at December 31, 2015, the Company has operating lease commitments of \$18,374 in each of 2016, 2017 and 2018, and \$17,311 in 2019.
- c) 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 \$324,380 at September 30, 2016 (December 31, 2015 - \$332,388). The Company has also estimated a potential liability for penalties and taxes on the amounts of \$107,500 (December 31, 2015 - \$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.
- d) 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 2 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 a final instalment of \$3,800 to be paid on June 1, 2018.

RISK FACTORS AND RISK MANAGEMENT

The oil and gas industry is subject to risks in (among others):

Commodity Price Risk

The Company has sold its entire product on the spot market. While the Company currently has no hedges in place, historically the Company has participated in these contracts when it is considered beneficial.

Production Risk

The Company believes it has a stable production base from a variety of wells. However, the Company remains subject to the risk that a significant decrease in production from some wells could result in a material decrease in the Company's production and associated cash flow.

Reserve Replacement Risk

The Company's production is subject to natural declines and the Company plans to replace production with acquisitions and developing new reserves. To remain financially viable, the Company must be able to replace reserves at a lesser cost on a per unit basis than its cash flow on a per unit basis. The Company closely monitors the capital expenditures made for the purpose of increasing its petroleum and natural gas reserves.

Regulatory Risk

Government royalties, income tax laws, environmental laws and regulatory requirements can have a significant impact on the Company's finances and operations. The Company strives to remain knowledgeable regarding changes to the regulatory regime under which it operates, in both Canada and the United States. Sudden regulatory or royalty changes by future government action is unpredictable and cannot be forecast by the Company.

Climate Change Risk

North American climate change policy is evolving and changing at both regional and national levels. The Company expects that some of its operations may be subject to future regional, provincial and/or federal climate change regulations to manage greenhouse gas. The exact scope and timing of new climate change measures is difficult to predict.

FINANCIAL RISK MANAGEMENT

The Board of Directors oversees managements' 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.

(a) 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 venture 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 venture 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 petroleum 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 petroleum and natural gas marketers or others in the event of non-payment.

At September 30, 2016, the Company's trade and other receivables have been aged as follows:

Days outstanding	September 30, 2016	December 31, 2015
	\$	\$
0-30 days	10,622	20,721
31-60 days	2,274	22,283
61-90 days	3,737	1,093
Greater than 90 days	61,622	83,804
Total	78,255	127,901

Amounts outstanding for more than 90 days are considered past due. During the nine months ended September 30, 2016, the Company wrote off \$nil of trade and other receivables (December 31, 2015 - \$49,743). As at September 30, 2016, a provision for doubtful accounts of \$101,833 has been recorded by the Company (December 31, 2015 - \$101,833).

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.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At September 30, 2016, the Company's maximum exposure to liquidity risk is the total current liabilities of \$6,532,093 (December 31, 2015 - \$7,167,145).

(c) 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) Currency risk:

As at September 30, 2015, an increase or decrease of 10% to the foreign exchange rate between the US dollar and the Canadian dollar applied to the average level of US denominated cash and cash equivalents would not have a material impact on the Company's comprehensive (loss) income for the period.

OUTLOOK

Based on the continuation of low natural gas prices, the Company will continue to focus on the exploration program in Texas, which is an oil based resource. The initial impact of this transition shows a lower production volume in our overall output, but the Company has recently completed two exploration wells in Guadalupe County, Texas. The Company is working with partners on a timetable to complete and tie in the wells. It was anticipated that the completion and tie in of both wells would be in Q4 of 2016 or Q1 of 2017. Preliminary estimates for the gross completion and tie in costs of both wells are \$175,000. The Company has a 27% interest in the wells. It is anticipated that both wells are capable of production and once the wells are tied in the Company will release information concerning the initial production rates. At the time of this writing the Company is still under a cease trade order and has not been able to raise the funds for the two operations outlined above. At the time of this writing the leases associated with the properties discussed are in good standing. The Company is working to have the cease trade order revoked at which point the Company will resume its efforts to raise the funds necessary to carry out these operations.

Additionally, the Company is working with partners towards completing the next phase of the electric generation project in Nevis, Alberta. The next phase of the project will add an additional 6MW of electricity generation at the Nevis and Lacombe fields and will continue to pave the way for the Company to explore electric generation at other areas in Alberta in order to create new revenue streams. Construction began on the five additional 1.2 MW generators in May, 2016 and at the time of this writing is nearing completion with the first of the five generators now on line. The four additional generators are anticipated commissioned and to be on line by the end of April 2017. The construction and installation costs for this phase of development are approximately \$6,500,000. Emerald Bay's current interest in the project will cost the Company approximately \$980,000. The Company had until the end of 2016 to raise the funds necessary to maintain the current interest in the project, however as the project is behind schedule the Company still has to opportunity to participate in the pro-rata share of costs once the project is completed and all costs finalized. Once the project is finalized the ownership percentages will be adjusted accordingly based on how much of the project was funded by each of the four partners. If the Company is unable to fund its portion, or any portion, of the project then the Company's current interest of approximately 16% would be reduced to approximately 5 to 6%.

The Company is currently under a Cease Trade Order at the time of this writing. The Cease Trade Order may limit the Company's ability to raise capital at this time. The Company is optimistic that the Cease Trade Order will be revoked prior to completion and commissioning of the generators enabling the Company to raise the necessary capital.

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 will continue to pursue a carefully designed capital expenditure program, including 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. We are confident that we have prepared ourselves to emerge from this environment operationally strong, and we expect to be well positioned to respond quickly when the business environment improves. Our proven management and dedicated team of professionals are engaged and committed to developing our high-quality asset base.

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) income 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

The Company has reviewed the new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company. The Company has not quantified the effect of the following:

IFRS 15 – "Revenue from Contracts with Customers", replaces International Accounting Standard 11, "Construction Contracts", IAS 18, "Revenue", and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. This IFRS becomes effective for annual periods beginning on or after January 1, 2017 with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements.

IFRS 9 – "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39 – "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. This IFRS becomes effective for periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.