

## 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, 2017 and the audited annual Consolidated Financial Statements for the year ended December 31, 2016. Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company is listed on the TSX Venture Exchange under the symbol "EBY". The MD&A is dated November 29, 2017.

### BASIS OF PRESENTATION

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

#### Basis of consolidation

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

#### Application of Accounting Estimates

The significant accounting policies used by the Company are disclosed in Note 3 to the annual Consolidated Financial Statements for the year ended December 31, 2016. 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, 2017, the Company had not yet achieved profitable operations, had an accumulated deficit of \$22,782,751 since its inception (December 31, 2016 - \$19,154,265), had negative cash flows used in operations of \$524,727 (December 31, 2016-\$265,603) and had a working capital deficiency of \$6,120,457 (December 31, 2016 - \$6,670,480) (defined as current assets less current liabilities), and expects to incur further losses in the development of its business. The ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the future. Management is committed to raising additional capital to meet its exploration and operating obligation, however, additional equity financing is subject to the global financial markets and economic conditions, which 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 commodity 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	
	2017	2016	2017	2016
<b>FINANCIAL</b>				
Gross revenue	210,497	3,274	216,142	8,242
Total assets	8,905,528	3,186,533	8,905,528	3,186,533
Cash flows used in operations	322,907	245,155	524,727	462,707
Net comprehensive income (loss)	(742,709)	523,399	(989,825)	195,188
Per share – basic and diluted	0.00	(0.00)	0.00	0.00
Capital expenditures	-	237	896	15,546
Exploration and evaluation expenditures	-	45,498	128,017	172,955
Loan	-	1,025,000	-	1,025,000
Convertible debt	376,000	383,256	376,000	123,000
Demand Loan	133,000	123,000	133,000	383,256
Short-term Loan	181,000	327,065	181,000	327,065
<b>OPERATIONS</b>				
<b>Production sales</b>				
Oil (BBLs/d)	37	-	12	-
Natural gas (MCF/d)	15	18	13	18
NGL (BBLs/d)	-	-	-	-
Total (BOE/d @ 6 MCF: 1 BBL)	39.5	3	15	3
<b>Average pricing</b>				
Natural gas (\$/MCF)	2.57	2.00	2.66	1.65
Oil and NGL's(\$/BBL)	57.68	-	59.79	-
Combined (\$/BOE)	59.21	10.80	53.36	9.91
<b>Expenses</b>				
Production expense & transportation (\$/BOE)	41.24	(13.28)	36.78	(16.21)
Royalty expense (\$/BOE)	1.47	(0.82)	1.17	(0.78)
<b>Net Back Combined (\$/BOE)</b>	<b>16.50</b>	<b>(3.30)</b>	<b>15.41</b>	<b>(7.08)</b>

### Financial and Operations Results

Petroleum and natural gas revenue was \$210,497 and \$216,142 for the three and nine months ended September 30, 2017 respectively, from revenue of \$3,274 and \$8,242 for the three and nine months ended September 30, 2016. The significant increase in oil production in the period was a result of increased ownership in PRI and the consolidation of the financial statements. The balance of the Company's petroleum and natural gas revenue was minimal during the three and nine months ended September 30, 2017 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 increased to \$2.57/MCF and \$2.66/MCF, respectively, in the three and nine months ended September 30, 2017 versus \$2.00/MCF and \$1.65/MCF, respectively, for the three and nine months ended September 30, 2016. Oil and NGL combined prices were \$57.68 and \$59.79 in the three and nine months ended September 30, 2017 as the Company consolidated the financials of the recently acquired interest in PRI. The average sales price on a BOE basis was \$59.21 and \$53.36, respectively, in the three and nine months ended September 30, 2017, compared to \$10.80 and \$9.91, respectively, in the three and nine months ended September 30, 2016 as a significant portion is related to the U.S. priced commodity of PRI being WTI spot.

During the three and nine months ended September 30, 2017, the average sales volume on a BOE/d was 39.5BOE/d, and 15 BOE/d, respectively, compared with 3 BOE/d and 3 BOE/d, respectively, during the three and nine months ended September 30, 2016.

## OPERATING RESULTS

Sales – Nine months ended	Average Daily Volumes		Average Prices	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Natural Gas (mcf)	13	18	2.66	1.65
Oil (bbls)	12	-	59.79	-
NGL (bbls)	-	-	-	-
<b>Barrels of Oil Equivalent (boe)</b>	<b>15</b>	<b>3</b>	<b>53.36</b>	<b>9.91</b>

During the period ended September 30, 2017, the Company continued to focus its resources toward its exploration program in Guadalupe County, Texas.

For the nine months ended September 30, 2017 natural gas sales decreased slightly to 13 MCF/d compared to 18 MCF/d during the same period in 2016 while 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 increased during the nine months ended September 30, 2017 to \$2.66/MCF versus \$1.65/MCF during the same period in 2016. During the nine months ended September 30, 2017, the average sales volume on a BOE/d basis increased to 15 BOE/d compared with 3 BOE/d for the six months ended September 30, 2016 due to the consolidation of with PRI. The average sales price on a BOE basis was \$53.36/BOE during the nine months ended September 30, 2017, increasing from \$9.91/BOE received in the nine months ended September 30, 2016.

## 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,	2017 (\$)	2016 (\$)
Petroleum and natural gas revenue	216,142	8,242
Royalties, petroleum and natural gas	(4,751)	(646)
Production expenses, petroleum and natural gas	(148,973)	(13,666)
Operating netback, petroleum and natural gas	62,418	(6,070)
Net income (loss)	(816,029)	(538,511)
Net income (loss) per share (basic and diluted)	0.00	0.00
Revenue per BOE	53.36	9.91
Royalty per BOE	1.17	0.78
Operating costs per BOE	36.78	16.21
Operating netback per BOE	15.41	(7.08)

With the acquisition of PRI, Petroleum and natural gas revenue increased to \$216,142 for the nine months ended September 30, 2017 from revenue of \$8,242 during the nine months ended September 30, 2016. Revenue on a BOE basis decreased to \$53.36/BOE from \$9.91/BOE during the nine months ended September 30, 2016.

Royalties were \$4,751 during the nine months ended September 30, 2017 compared to the same period in 2016 of \$646. Royalty per BOE for the nine months ended September 30, 2016 averaged \$1.17/BOE, from \$0.78/BOE during the nine months ended September 30, 2016.

Production expenses in the nine months ended September 30, 2017 were \$148,973 from the nine months ended June 30, 2016 of \$13,666. Operating costs per BOE for the nine months ended September 30, 2017 increased to \$36.78/BOE from \$16.21/BOE in the nine months ended September 30, 2016.

The Company's revenue increase was primarily due to the addition of PRI and higher natural gas prices despite certain Canadian assets continuing to be shut-in to preserve existing reserves since June 30, 2014.

#### Royalties per unit of Production

Nine months ended	Sept 30, 2017	Sept 30, 2016
Gas (\$/mcf)	0.29	0.03
Oil (\$/bbl)	1.15	-
NGL (\$/bbl)	-	-
<b>Total (\$/boe)</b>	<b>1.17</b>	<b>0.78</b>

The royalties per MCF for natural gas increased to \$0.29/MCF from \$0.03/MCF in 2016. Combined royalties for all products was to \$1.17/BOE in 2017 from \$0.78/BOE the previous period.

## GENERAL & ADMINISTRATIVE EXPENSES

After recoveries, general and administrative expenses ("G&A") increased to \$430,537 and \$637,959, respectively, during the three and nine months ended September 30, 2017 from \$210,540 and \$386,829, respectively, for the same period during 2016. The increase in the Company's G&A is reflective of the Company's efforts to expand its activities and progress with the exploration program in Texas, as well as the combined financials of the newly added PRI asset and efforts the Company made to move forward after having the Cease Trade Order revoked during the previous period.

	General & Administrative Expenses			
	Three months ended Sept 30		Nine months ended Sept 30	
	2017 (\$)	2016 (\$)	2017 (\$)	2016 (\$)
<b>Net G&amp;A expense</b>	<b>430,537</b>	210,540	<b>637,959</b>	386,829

## STOCK BASED COMPENSATION

During the three and nine months ended September 30, 2017, the Company recognized share-based payment expense of \$nil, in the statement of comprehensive (loss) income (September 30, 2016 – 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 \$426,314 as at December 31, 2016 to 1,146,166,304 as at September 30, 2017 primarily due to the PRI acquisition.

## 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 Sept 30		Nine months ended Sept 30	
	2017 (\$)	2016 (\$)	2017 (\$)	2016 (\$)
<b>Depletion and depreciation</b>	<b>100,541</b>	2,755	<b>103,120</b>	13,976

During the three and nine months ended Sept 30, 2017, depletion and depreciation expenses were \$100,541 and \$103,120, respectively, compared to \$2,755 and \$13,976 during the same period in 2016 due to addition of the PRI asset.

## CAPITAL EXPENDITURES

	<b>Nine months ended September 30,</b>	
	<b>2017 (\$)</b>	<b>2016 (\$)</b>
Exploration and evaluation expenditure	<b>128,017</b>	<b>172,955</b>
Capital expenditures	<b>896</b>	<b>15,546</b>

The exploration and evaluation expenditures related to the Company's exploration program in Texas decreased slightly over the prior period. The Company continues to move toward completion of costs required in the exploration stages of the program before the assets enter the developed stage. The assets have yet to show technological feasibility and commercial viability and accordingly are considered exploration and evaluation assets.

## EQUITY INVESTMENT IN PRI

The investment in PRI as at December 31, 2016 is as follows:

	<b>\$</b>
<b>Net investment, December 31, 2015</b>	<b>\$343,049</b>
Fair value adjustment at December 31, 2016	(28,199)
<b>Net investment, December 31, 2016</b>	<b>\$314,850</b>

As at December 31, 2016, the fair value of the investment in PRI was a Level 3 valuation of the fair value measurement hierarchy as the value been determined using unobservable inputs. Fair value is based on a present value technique involving expected cash flows and discount rates using assumptions that market participants would use when pricing such an investment. As the fair value of the investment relates to the fair value of the underlying operations of the investment, the present value of the investment is primarily based on the net present valuing of the cash flows from the proved and probable reserves at a discounted at market rate.

Effective July 1, 2017, the Company acquired 65% of the stock in PRI from to a party with a previous shareholding in PRI. The investment is accounted for using the acquisition method recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquisition; and recognizing and measuring goodwill or a gain from a bargain purchase. The Company's interest in the share capital of PRI is increased to 75%.

<b>Fair Value PRI Acquisition</b>	<b>2017</b>
Fair value of property, plant & equipment	<b>3,818,294</b>
Current Assets received	<b>391,212</b>
E&E Assets received	<b>1,154,828</b>
Other Fixed Assets received	<b>145,110</b>
Payables and accrued liabilities assumed	<b>(461,564)</b>
Loan assumed	<b>(2,680,480)</b>
Decommissioning Liability assumed	<b>(266,254)</b>
Fair Value estimate	<b>2,101,146</b>
Acquisition Cost	<b>2,241,128</b>
Gain (Loss) on Acquisition	<b>(139,982)</b>

## 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	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31
	2017	2017	2017	2016	2016	2016	2016	2015
Petroleum and natural gas sales	210	10	3	5	3	2	3	1
Net income (loss)	(566)	(322)	(137)	(532)	(253)	(172)	(113)	(42)
Net income (loss) per share								
Basic and diluted	0.00	0.00	(0.00)	(0.00)	(0.00)	0.00	(0.00)	(0.00)
<b>Average daily sales</b>								
Natural gas (MCF/d)	15	19	17	18	18	18	19	20
Oil/NGL (BBLs/d)	37	-	-	-	-	-	-	1
Barrels of oil equivalent (BOE/d)	40	3	3		3	3	3	4
<b>Average sales prices</b>								
Natural gas (\$/MCF)	2.57	2.89	2.82	3.05	2.00	1.15	1.80	2.43
Oil/NGL (\$/BBL)	57.68	-	-	-	-	-	-	47.85
Sales price of oil equivalent (\$/BOE)	59.21	20.66	16.92	18.83	10.80	6.90	10.85	17.91
Operating costs (\$/BOE)	41.24	8.85	16.73	9.05	13.28	18.59	15.39	18.13
Royalty Expense (\$/BOE)	1.47	.41	1.11	5.47	(0.78)	.45	1.13	4.26
Operating netback (\$/BOE)	16.50	11.57	(0.92)	4.31	(3.30)	(12.14)	(5.67)	(4.48)

### Explanation of Quarterly Variances

On a quarter by quarter basis, production volumes, and accordingly petroleum and natural gas sales, have decreased since 2015, and have been minimal, with little fluctuation, until this quarter with the addition of the newly acquired assets including the increased ownership interest in PRI.

Higher G&A costs have added increased losses in Q1 – Q3 of 2017 as the Company moves aggressively toward developing its business plan in South Texas.



## LIQUIDITY & CAPITAL RESOURCES

In order to resolve its working capital deficiency of \$6,104,124, 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. 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.

The Company has recently 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 will bear 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 9) and a portion of the Short-term debt (note 12), with the balance being used for acquisitions of oil and gas interests in South Texas and Alberta, including in the acquisitions noted in the Outlook section below.

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.

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

The TSX Venture Exchange has accepted for filing documentation with respect to a non-brokered private placement announced August 9, 2017.

Number of units: 32 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: one cent per unit

Warrants: 32 million

Warrant exercise price: five cents (The warrants are subject to an acceleration clause, whereby if, after four months and one day following the date the warrants are issued, the closing price of the shares of the corporation on the principal market on which such shares trade is equal to or exceeds 10 cents for 30 consecutive trading days (with the 30th such trading date referred to as the eligible acceleration date), the warrant expiry date shall accelerate to the date which is 30 calendar days following the date a press release is issued by the corporation announcing the reduced warrant term, provided, no more than five business days following the eligible acceleration date: (i) the press release is issued; and (ii) notices are sent to all warrant holders.)

Number of places: five places

Insiders: All Investments Ltd. (Clarence K. Wagner), 22.5 million; Shelby D. Beattie, one million; Michael L. Rice, 750,000

Finder's fee: none

At the time of this writing, the Company has announced the following proposed Private Placement Offering of up to \$300,000 (up to maximum of 20,000,000 common shares ("**Common Shares**") of the Corporation). The Common Shares are to be issued under a unit offering whereby up to a maximum of 20,000,000 units ("**Units**") at a subscription price of \$0.015 per Unit are to be offered. Each Unit shall consist of one (1) Common Share of the Corporation and one (1) share purchase warrant (the "**Warrant**") (each full Warrant shall entitle the holder thereof to purchase one (1) additional Common Share of the Corporation for a period of 12 months from the issuance of the Units at a price of \$0.05) (the "**Offering**").

The Warrants are subject to an acceleration clause whereby if after four months and one day following the date the Warrants are issued, the closing price of the Common Shares of the Corporation on the principal market on which such shares trade is equal to or exceeds \$0.10 for 30 consecutive trading days (with the 30<sup>th</sup> such trading date hereafter referred to as the "**Eligible Acceleration Date**"), the Warrant expiry date shall accelerate to the date which is 30 calendar days following the date a press release is issued by the Corporation announcing the reduced warrant term, provided, no more than five business days following the Eligible Acceleration Date: (i) the press release is issued; and (ii) notices are sent to all warrant holders.

The net proceeds will be used in respect existing drilling commitments on the Corporation's assets in Texas, specifically in relation to the following:

- at the Corporation's Wooden Horse property, the Corporation: (i) will add lifting equipment to begin production operations on the recently drilled Kuhn 4 well, at an approximate cost of \$22,500; (ii) is evaluating locations for two new wells (Kuhn 5 and Kuhn 6) to be drilled as Buda formation targets at an estimated cost to the Company of \$65,000 each; and (iii) will renew leased acreage and lease acreage adjacent to the Wooden Horse property at an approximate cost of \$35,000; and
- at the Corporation's Nash Creek property, the Corporation plans to drill short radius horizontal legs to the fault detected by the 3D seismic in the BeauMar 1 well at an approximate cost of \$68,000.

All of the Common Shares and Warrants issued pursuant to the private placement are subject to a 4-month hold period. The terms of the private placement 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.

## Loan

On September 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 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 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 on the outstanding principal amount (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 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 consolidated 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 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, and the nine months ended September 30, 2017, the Lender advanced an additional \$225,000 and \$75,000, respectively, to the Company under the same terms as the Loan. However, the additional advances were 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, 2017, the Company incurred interest of \$51,875 (December 31, 2016 - \$102,492). This loan was extinguished with proceeds from the credit facility (note 13).

The following table summarizes the accounting of the Loan:

	\$
<b>Balance, December 31, 2016</b>	<u>1,025,000</u>
Receipt of additional funds	75,000
Payoff	<u>-1,100,000</u>
<b>Balance, September 30, 2017</b>	<u>-</u>

### ***Demand loan***

On May 12, 2015, the Company entered into a loan agreement (the "Demand Loan") with a corporation owned and controlled by a party who is also a significant shareholder of the Company (the "Lender") for up to an amount of \$150,000. The proceeds of the Demand Loan were used for the continued operation of the Company. The Demand Loan is due on the demand of the Lender and bears interest of 8.00% per annum, compounded monthly. At September 30, 2017, the Company has drawn \$133,000 against the Demand Loan (December 31, 2016 - \$123,000) and during the nine months ended September 30, 2017 has incurred interest of \$5,428 (December 31, 2016 - \$15,299). The Company may repay the Demand Loan in full at any time prior to demand without notice or penalty.

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

During the year ended December 31, 2016, the Company received a short-term loan (the "Short-term Loan") from the Lenders associated with the Loan (note 9) and the Convertible debt (note 10), collectively, the Lenders (the "Lenders") in the maximum available amount of \$350,000. A set-up fee of \$6,000 was charged by the Lenders, and is included in general and administrative expenses. Interest on the Short-term Loan is 10% per annum, compounded monthly. The Short-term Loan matured December 1, 2016. The proceeds of the Short-term Loan were to provide capital for on-going operational and administrative costs of the Company. The Company may 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. During the quarter part of the short term debt was repaid with proceeds from the credit facility (note 13).

At September 30, 2017, the total amount outstanding under the Short-term Loan is \$0 (December 31, 2016 - \$314,262), and during the nine months ended September 30, 2017 incurred interest of \$26,843 (December 31, 2016 - \$15,366).

### ***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 (\$204,000 CAD) loan with a maturity date of one year (the "Original Loan"). Pursuant to the Loan Agreement, if it is mutually agreed upon by both parties, the maturity date can be extended by an additional year. During the nine months ended September 30, 2016, and the years ended December 31, 2015 and 2014, the Lender advanced an additional loan amount of \$50,000, \$75,000 and \$100,000 (the "Advances"), respectively, to the Company under the same terms as the Original Loan. At each maturity date, the Company and the Lender mutually agreed to extend the Original Loan and the Loan advances by an additional year. As at September 30, 2017, the Company has not received demand from the Lender for repayment, and the Company is currently negotiating an extension of the short-term loan with the Lenders. Interest on the loan is 12% per annum, payable monthly, on the outstanding principal amount. Security for the loan consists of a \$150,000 promissory note and monthly production from certain Texas assets equivalent to the principal portion of the loan and any unpaid interest.

At the option of the Lender, and subject to regulatory approval, the entire principal amount of the Original Loan, or any portion outstanding, may have been converted to shares in the Company with a discount of 25% to the market trading price at the time of conversion, at any time during the term. The conversion feature was to be treated consistently with the conversion feature included on the Loan (note 9). The conversion feature on the Original

Loan expired unexercised on December 31, 2014 and the conversion features on the Advances did not receive regulatory approval before the conversion features expired.

The 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. During the nine months ended September 30, 2017, the Company incurred interest of \$29,770 (December 31, 2016 - \$48,632) on the aggregate amount owing under the convertible debt.

### **Long Term Debt**

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 will have an interest free period until October 1, 2017, at which point the Credit Facility will bear 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 9) and the part of the Short-term debt (note 12), with the balance being used for acquisitions of oil and gas interests in South Texas and Alberta.

Long Term debt includes \$6,193,083 advanced from the credit facility as well as \$4,597,104 in debt assumed in the PRI acquisition.

### **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, 2017</u>	<u>June 30, 2017</u>
Common Shares (i)	230,610,189	198,610,189
Warrants (ii)	32,000,000	
Stock Options (iii)	6,700,000	6,700,000

#### **Notes:**

- (i) On August 24, 2017, the Company completed a private placement (the "Private Placement"), issuing 32,000,000 units (the "Unit). Each Unit was issued at \$0.01 for total proceeds of \$320,000, and consists of one common share of the Company and one share purchase warrant (the "Warrant"). Each Warrant is exercisable into one common share in the Company at a price of \$0.05, with an expiry date of August 23, 2018.
- (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.
- (iii) 6,700,000 of the Stock Options entitle the holders to acquire an equal number of common shares at \$0.05 per share until October 18, 2018

The following table sets forth, to the best of the knowledge of the directors and executive officers of the Corporation, as at the date hereof, the only persons, corporations or other entities (other than securities depositories) who beneficially own, directly or indirectly, or exercise control or discretion over voting securities carrying more than 10% of the voting rights attached to the shares of the Corporation.

<u>Name and Municipality of Residence</u>	<u>Type of Ownership</u>	<u>Number of Common Shares</u>	<u>Percentage</u>
Clarence Wagenaar	Direct and Indirect <sup>(1)</sup>	<b>38,581,000</b>	<b>16.73%</b>

**Notes:**  
Aggregating the securities of the Corporation owned by All Investments Ltd. and Mr. Wagenaar personally, Clarence Wagenaar may be considered to control 38,581,000 Common Shares of the Corporation.

## 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 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 (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 September 30, 2017, the officer had not yet paid the initial instalment or the second instalment, and the terms of the payments has been extended to begin on December 31, 2017. The terms of the loan agreement do not provide the Company with recourse to ensure repayment. Thus, the share purchase loan has been presented as a deduction from equity.

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

- (i) Included in accounts payable at September 30, 2017 was \$359,943 owing to officers of the Company (December 31, 2016 - \$352,412).

### *Key management compensation*

During the nine months ended September 30, 2017, \$360,304 (December 31, 2016 - \$367,023) in management compensation was incurred. \$275,566 was charged to the consolidated statement of comprehensive loss and \$84,738 was capitalized to property and equipment in the consolidated statement of financial position.

### *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 reappointed 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**"). The Company filed all required documents and the cease trade order was revoked on May 19, 2017.

Shares of the Company resumed trading on the TSX-Venture Exchange on May 26, 2017.

*Misc.*

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

## COMMITMENTS

- a) On March 5, 2014, the Company entered into a lease agreement with a related party for the lease of office space. Under a lease agreement, the Company committed to monthly payments of \$2,771 for the lease of its office space until November 30, 2016. On December 1, 2016, the Company agreed to continue paying \$2,771 on a month to month basis.
- b) The Company raised capital through the issuance of flow-through shares in 2009, 2010 and 2011 which provided indemnity to the subscriber for additional taxes payable if the Company was unable to, or failed to renounce the qualifying expenditures as agreed. The Company was not able to spend \$824,338 of the flow-through funds raised. The Company is exposed to costs for the indemnification of the subscribers. The Company has estimated a potential liability on the amount of \$316,001 at September 30, 2017 (December 31, 2016 - \$332,388). The Company has also estimated a potential liability for penalties and taxes in the amounts of \$107,500 (December 31, 2016 - \$107,500) and is included in accounts payable and accrued liabilities. The accrued amount is subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreement, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency and these amounts become known to the Company.
- c) During the year ended December 31, 2015, the Company settled a contingent liability totalling \$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 favour of the third party in case of default. The settlement was fair valued at \$107,912 using Level II valuation techniques with a discount rate of 25%. The Company is required to make 35 monthly payments of \$4,300 starting July 1, 2015 to May 1, 2018 and final instalment of \$3,800 to be paid on June 1, 2018. During the Nine months ended September 30, 2017, the Company has made 2 additional payments of \$4,300 (during the year ended December 31, 2016 - \$34,271).

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

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

### (a) Fair values

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

At September 30, 2017, the Company's cash and cash equivalents and short-term investments have been subject to Level I valuation. The investment in the Partnership is level II.

### b) Credit risk:

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

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

As at September 30, 2017, a provision for doubtful accounts of \$48,964 has been recorded by the Company (December 31, 2016 - \$48,964). During the year ended December 31, 2016, the Company recovered \$52,869 of previously written off trade and other receivables.

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

### c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At September 30, 2017, the Company's maximum exposure to liquidity risk is the total current liabilities of \$7,022,879 (December 31, 2016 - \$7,026,963).

## OUTLOOK

The Company's focus remains its oil based exploration program in South Texas.

The Company has recently 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 will have an interest free period until October 1, 2017, at which point the Credit Facility will bear 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 will be used to repay the Loan (note 9 of the financial statements) and the Short-term debt (note 12), with the balance being used for future acquisitions of oil and gas interests in South Texas and Alberta, including in the acquisitions completed in the quarter as noted below.

- The Company closed a transaction whereby it 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 recently closed a transaction whereby the Company increased its interest in PRI (note 4) 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 recently closed a transaction whereby it 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.

At the time of this writing the Company has completed testing operations of the Buda formation in the recently drilled 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. Lifting equipment is now being put in place for the well to begin commercial production. Although drilled as an Austin Chalk target, the Company did not test the Austin Chalk in Kuhn 4 at this time, but will do so at a future date as the well showed good Austin Chalk potential during drilling.

Additionally, the Company is now in the process of selecting locations for Kuhn 5 and Kuhn 6 as Buda targets. The Company feels that results from the Buda formation may even be better as the Company identifies locations up-dip from Kuhn 4 and closer in proximity to the primary fault. Subject to closing the Private Placement financing, the Company will survey and permit Kuhn 5 and Kuhn 6 in December, with drilling to begin in January 2018.

During the quarter the Company closed a Private Placement for proceeds of \$320,000 and at the time of this writing, the Company has recently announced a proposed Private Placement for proceeds up to \$300,000.

The net proceeds of the proposed Private Placement will be used in respect existing drilling commitments on the Corporation's assets in Texas, specifically in relation to the following:

- at the Corporation's Wooden Horse property, the Corporation: (i) will add lifting equipment to begin production operations on the recently drilled Kuhn 4 well, at an approximate cost of \$22,500; (ii) is evaluating locations for two new wells (Kuhn 5 and Kuhn 6) to be drilled as Buda formation targets at an estimated cost to the Company

of \$65,000 each; and (iii) will renew leased acreage and lease acreage adjacent to the Wooden Horse property at an approximate cost of \$35,000; and

- at the Corporation's Nash Creek property, the Corporation plans to drill short radius horizontal legs to the fault detected by the 3D seismic in the BeauMar 1 well at an approximate cost of \$68,000.

Additionally, the Company and its partners have completed phase 2 of development at the electric generation project in Nevis, Alberta. When complete, phase of the project added an additional 6MW of electricity generation at the Nevis and Lacombe fields. Construction began on five additional 1.2 MW generators in May, 2016 and construction has been completed on all five generators. One of the generators has required a rebuild at the expense of the manufacturer, but the other four generators are now fully tested and operational. The construction and installation costs for this phase of development were approximately \$6,500,000. The Company's current interest in the project is approximately 5%.

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.

## SEGMENTED INFORMATION

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

Product segmentation is as follows:

Revenue	Oil	Natural Gas	NGL's	Total
September 30, 2017 (\$)	191,630	18,337	2,644	212,611
September 30, 2016 (\$)		4,968	-	4,968

Geographical segmentation is as follows:

	Three months ended September 30, 2017 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	12,288	190,207	202,495
Depletion, depreciation and impairment	-	98,353	98,353
Net loss	297,751	154,655	452,406
Property and equipment	(28,639)	2,474,764	2,446,125
Exploration and evaluation assets	-	3,146,442	3,146,442
Investment in Partnership	221,156	221,155	442,311
Total liabilities	5,009,537	5,532,170	10,541,707

	Three months ended September 30, 2016 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	3,274	-	3,274
Depletion, depreciation and impairment	1,589	1,166	2,755
Net income (loss)	602,560	(35,305)	567,255
Property and equipment	40,874	21,693	62,567
Exploration and evaluation assets	-	2,027,777	2,027,777
Share of investment in PRI	154,395	154,396	308,791
Investment in Partnership	-	-	-
Total liabilities	3,768,140	2,438,652	6,206,792

	Nine months ended September 30, 2017 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	22,404	190,207	212,611
Depletion, depreciation and impairment	4,177	98,943	103,120
Net loss	609,660	227,174	836,834
Property and equipment	7,038	2,478,425	2,485,463
Exploration and evaluation assets	-	5,058,729	5,058,729
Investment in Partnership	221,156	221,155	442,311
Total liabilities	10,060,203	8,262,695	18,322,898

	Nine months ended September 30, 2016 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	8,242	-	8,242
Depletion, depreciation and impairment	10,140	3,542	13,682
Net income (loss)	315,582	(34,223)	281,359
Property and equipment	40,874	21,693	62,567
Exploration and evaluation assets	-	2,027,777	2,027,777
Share of investment in PRI	154,395	154,396	308,791
Investment in Partnership	-	-	-
Total liabilities	3,768,140	2,438,652	6,206,792

## 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 income (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, 2018 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.