

Emerald Bay Energy Inc.

Consolidated financial statements
For the Three Months Ended March 31, 2019
(expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW

In accordance with National Instrument 51-102 Section 4.3(3)(a) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited Interim Consolidated Financial Statements for the three-month period ended March 31, 2019.

Emerald Bay Energy Inc.

Consolidated Statements of Financial Position March 31, 2019 and December 31, 2018

	March 31, 2019 \$	December 31, 2018 \$
Assets		
Current assets		
Cash and cash equivalents	260,970	623,380
Short-term investments	334,075	341,250
Trade and other receivables (note 15(b))	295,657	142,178
Prepaid expenses and deposits	67,093	37,402
Total current assets	957,795	1,144,210
Non-current assets		
Exploration and evaluation assets and other intangible assets (note 6)	3,028,899	2,881,857
Property and equipment (note 5)	6,015,320	6,317,644
Goodwill		
Total assets	10,002,014	10,343,711
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 15(c))	6,884,130	7,361,784
Shareholder indemnity (note 14(b))	300,080	290,567
Short-term loan (note 12)	534,520	546,000
Convertible debt (note 8)	379,750	379,750
Demand loan (note 9)	105,500	105,500
Short-term loan (note 10)	-	200,000
Note Payable (note 11a)	5,785,406	5,785,406
Note payable		-
Credit Facility (note 11b)	4,239,797	4,330,856
Other liabilities (note 14(d))	6,682	131,997
Total current liabilities	18,236,865	19,131,860
Non-current liabilities		
Decommissioning obligations (note 7)	1,055,357	1,063,942
Other liabilities		
Total liabilities	19,291,222	20,195,802
Shareholders' deficit		
Share capital (note 13(b))	15,033,374	13,350,142
Warrants (note 13(c))	464,371	607,708
Contributed surplus	1,886,474	1,886,474
Share purchase loan (note 14(a))	(247,970)	(247,970)
Deficit	(26,705,805)	(25,805,078)
Non-controlling interest in PRI	(68,231)	8,055
Accumulated other comprehensive income	348,579	348,579
Total shareholders' deficit	(9,289,208)	(9,852,091)
Total liabilities and shareholders' deficit	10,002,014	10,343,711

Reporting entity and going concern (note 1)

Commitments (note 15)

Approved on behalf of the Board of Directors

Signed "Shelby D. Beattie"

Director

Signed "Gibson C Scott"

Director

Emerald Bay Energy Inc.

Consolidated Statements of Comprehensive Loss

For the three-month periods ended March 31, 2019 and 2018

	For the three months ended	
	March 31, 2019	March 31, 2018
	\$	\$
Revenue		
Petroleum and natural gas revenue	228,188	265,951
Other revenue	10,410	48,733
Royalties	9,915	(2,431)
	<u>248,513</u>	<u>312,283</u>
Operating expenses		
Production and operating expenses	135,550	141,448
Depletion and depreciation (note 5)	109,675	41,554
General and administrative	289,201	258,228
Foreign exchange (gain)	423,739	35,296
	<u>957,445</u>	<u>475,526</u>
Results from operating activities	<u>(709,652)</u>	<u>(164,243)</u>
Finance expense		
Interest expense	(190,708)	(237,350)
Accretion of decommissioning obligations (note 7)	(367)	(642)
Net finance expense	<u>(191,075)</u>	<u>(237,992)</u>
Other income and expenses		
Gain on Abandonment and reclamation	-	-
Net other income and expenses	<u>-</u>	<u>-</u>
Net Income (loss) for the period	<u>(900,727)</u>	<u>(402,235)</u>
Other comprehensive loss		
Noncontrolling interest in PRI	(76,286)	(16,857)
Foreign currency translation adjustment	-	-
Total comprehensive Income (loss) for the period	<u>(977,013)</u>	<u>(419,092)</u>
Basic and fully diluted loss per share (note 13(e))	(0.00)	(0.00)
Weighted average number of common shares outstanding during the period	305,275,445	257,276,856

Emerald Bay Energy Inc.

Statements of Changes in Deficit

For the periods ended March 31, 2019 and December 31, 2018

	Share capital \$	Warrants \$	Contributed surplus \$	Share purchase loan \$	Deficit \$	Non- Controlling Interest	Accumulated other comprehensive loss \$	Total deficit \$
Balance, December 31, 2017	12,767,569	556,389	1,886,474	(247,970)	(22,785,516)	(36,879)	5,809	(7,854,124)
Reallocation expiry of warrant	561,395	(561,395)	-	-	-	-	-	-
Issue costs for expired warrant	(5,006)	5,006	-	-	-	-	-	-
Loss for the year	-	-	-	-	(3,019,562)	(69,323)	-	(3,088,885)
Private placement , net of issue cost	26,184	607,708	-	-	-	-	-	633,892
Acquisition of subsidiary	-	-	-	-	-	-	-	-
Foreign exchange translation to presentation currency	-	-	-	-	-	114,257	342,770	457,026
Balance, December 31, 2018	13,350,142	607,708	1,886,474	(247,970)	(25,805,078)	8,055	348,579	(9,852,091)
Shares issued	1,539,895	-	-	-	-	-	-	1,539,895
Warrants issued	-	-	-	-	-	-	-	-
Reallocation expiry of warrant	145,237	(145,237)	-	-	-	-	-	-
Issue costs for expired warrant	(1,900)	1,900	-	-	-	-	-	-
Loss for the period	-	-	-	-	(900,727)	-	-	(900,727)
Non-controlling interest in PRI	-	-	-	-	-	(76,286)	-	(76,286)
Accumulated Foreign Translation and other comprehensive items	-	-	-	-	-	-	-	-
Balance, March 31, 2019	15,033,374	464,371	1,886,474	(247,970)	(26,705,805)	(68,231)	348,579	(9,289,208)

Emerald Bay Energy Inc.

Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

	March 31, 2019	March 31, 2018
	\$	\$
Cash provided by (used in):		
Operating activities		
Net Income (loss) for the period	(900,727)	(402,235)
Adjustments for:		
Depletion and depreciation (note 5)	109,675	41,554
Accretion of decommissioning obligation (note 8)	367	(642)
Unrealized foreign exchange gain	-	-
	<u>(790,685)</u>	<u>(361,323)</u>
Change in trade and other receivables	(153,479)	(537,857)
Change in prepaid expenses and deposits	(29,691)	(3,629)
Change in accounts payable & accrued liabilities	(477,654)	854,687
Change in shareholder indemnity	-	(5,400)
	<u>(1,451,509)</u>	<u>(53,522)</u>
Investing activities		
Property and equipment expenditures (note 5)	302,324	-
Exploration and evaluation expenditures (note 6)	(147,042)	(394,196)
Change in short-term investments	7,175	9,075
	<u>162,457</u>	<u>(385,121)</u>
Financing activities		
Share issue costs (note 14(b))	-	(5,178)
Change in other liabilities	104,982	-
Shares for Debt	1,539,895	-
Increase in other liabilities (note 15(d))	8,585	743,388
	<u>1,653,462</u>	<u>738,210</u>
Foreign exchange on cash and cash equivalents	-	-
Change in cash and cash equivalents	(364,410)	61,758
Cash and cash equivalents, beginning of period	623,380	124,949
Cash and cash equivalents, end of period	260,970	128,881

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

1 Reporting entity and going concern

Emerald Bay Energy Inc. (the “Company”) was incorporated under the Business Corporations Act of Alberta on May 9, 1997 and is listed on the TSX Venture exchange. The Company is engaged in the exploration for and development of petroleum and natural gas properties, principally in Alberta, Canada and Texas, USA. The Company is listed on the TSX Venture exchange under the symbol “EBY.V”. The Company’s registered head office is located at #3A, 4015 – 1 Street South East, Calgary, Alberta, Canada T2G 4X7.

At March 31, 2019, the Company had not yet achieved profitable operations, had an accumulated deficit of \$26,705,805 since its inception (December 31, 2018 - \$25,805,078), had negative cash flows from operations of \$900,727 (December 31, 2018 \$421,375) and had a working capital deficiency of \$16,942,786 (December 31, 2018 - \$17,987,650) (defined as current assets less current liabilities), and expects to incur further losses in the development of its business. The ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the future. Management is committed to raising additional capital to meet its exploration and operating obligation, however, additional equity financing is subject to the global financial markets and economic conditions, which have recently been disrupted and are volatile, and the debt and equity markets, which are distressed, particularly for junior petroleum and natural gas companies. All of these factors, together with weak natural gas prices and the current unstable economic conditions, indicate the existence of material uncertainties related to events or conditions that may cast significant doubt as to whether the Company can continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications that would be necessary if the going concern assumption was not appropriate. Any adjustments necessary to the consolidated financial statements if the Company ceases to be a going concern could be material.

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

2 Basis of presentation

a) Statement of compliance:

The interim condensed consolidated financial statement have been prepared in accordance with International Accounting Standards (“IAS”) 34 – “*Interim Financial Reporting*” as issued by the International Accounting Standards Board (“IASB”) using the accounting policies and methods of computation disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2018. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 and exclude certain disclosures required to be included in annual consolidated financial statements.

The Board of Directors approved the consolidated financial statements on May 30, 2019.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and available for sale financial investments which are measured at fair value, as explained in note 3 – Significant accounting policies in the Company’s audited consolidated financial statements for the year ended December 31, 2018.

c) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its United States branch, Emerald Bay Texas Inc., its wholly-owned and controlled subsidiary and 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.

d) Nature and purpose of equity and reserves:

The reserves recorded in equity on the Company’s consolidated statement of financial position include ‘contributed surplus’, ‘Accumulated other comprehensive loss’, and ‘Deficit’.

‘Contributed surplus’ is used to recognize the value of stock options and broker warrants prior to exercise.

‘Accumulated other comprehensive loss’ is the foreign exchange gain or loss resulting from the translation of the Corporation’s foreign subsidiary.

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

'Deficit' is used to record the Corporation's change in deficit from profit or loss from year to year.

e) Use of estimates and judgments:

In preparing these interim condensed consolidated financial statements, management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited annual consolidated financial statements as at and for the year ended December 31, 2018.

3 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 16, "Leases": In January 2017, 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.

4 Equity investment in PRI

The Company's interest in the share capital of PRI was 10% at December 31, 2016. 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 noncontrolling interest in the acquire; 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%.

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

5 Property and equipment

	Oil and natural gas interests \$	Corporate and other \$	Total \$
Cost, December 31, 2018	11,106,429	486,351	11,592,780
Additions	-	-	-
Dispositions	-	-	-
Foreign currency translation	-	-	-
Cost, March 31, 2019	11,106,429	486,351	11,592,780
Accumulated depletion, depreciation and impairment, beginning of year	(5,012,111)	(263,025)	(5,275,136)
Depreciation and depletion for the period	(98,368)	(11,307)	(109,675)
Foreign currency translation	-	(192,649)	(192,649)
Carrying value, March 31, 2019	5,995,950	19,370	6,015,320

	Oil and natural gas interests \$	Corporate and other \$	Total \$
Cost, December 31, 2017	10,311,907	406,811	10,718,718
Additions (Dispositions)	(543,975)	-	(543,975)
Cost, December 31, 2018	9,767,932	406,811	10,174,743
Accumulated depletion, depreciation and impairment, beginning of year	(4,407,209)	(209,834)	(4,617,043)
Depreciation and depletion for the period	(30,738)	(10,816)	(41,544)
Foreign currency translation	-	-	-
Carrying value, March 31, 2018	5,329,985	186,161	5,516,146

6 Exploration and evaluation assets

	E&E assets \$
Balance, December 31, 2017	2,939,539
Additions	506,956
Impairment	(612,889)
Proceeds from farm-out agreement	(108,518)
Revisions in decommissioning liability	(29,346)
Transfer to Property & Equipment (note 5)	(84,525)
Foreign currency translation	270,640
Balance, December 31, 2018	2,881,857
Additions	146,675
Revisions in decommissioning liability	367
Foreign currency translation	-
Balance, March 31, 2019	3,028,899

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

E&E assets consist of the Company's exploration projects which are pending the determination of technical feasibility and commercial viability. As at March 31, 2019, the Company incurred an amount of \$3,028,899 on E&E expenditures (December 31, 2018 - \$2,881,857). The additions represent the acquisition of undeveloped land and drilling activity within Texas. These E&E assets will be transferred to property and equipment when technical feasibility and commercial viability have been established. The E&E asset impairment was \$1,686,831 for the year ended December 31, 2017. The impairment was recognized upon a review of each exploration license or field, carried out, at least annually, to confirm whether the Company intends further appraisal activity or to otherwise extract value from the property. There were no indicators of additional impairment at March 31, 2019.

7 Decommissioning obligations

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be \$869,510 as at March 31, 2019 (December 31, 2018 - \$1,063,942) based on an undiscounted total future liability of \$1,182,119 (December 31, 2018 - \$1,129,016). These payments are expected to be made over the next 2 to 24 years. The obligations have been calculated using an inflation rate of 2% and a discount factor, being the risk-free rate related to the liability, of 2.40% - 2.63% (December 31, 2018 - 1.86% - 2.18%, respectively).

	March 31, 2019	December 31, 2018
	\$	\$
Balance, beginning of period	1,063,942	968,985
Additions	8,729	7,789
Additions through acquisitions	-	-
Liabilities incurred	-	-
Abandonments	-	-
Revisions / changes in estimates	(22,895)	(67,341)
Accretion	5,581	18,076
Foreign currency translation	-	136,433
Balance, end of period	1,055,357	1,063,942

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

8 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 March 31, 2017, 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 March 31, 2019, 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 three months ended March 31, 2019, the Company incurred interest of \$3,903 (December 31, 2018 - \$31,601) on the aggregate amount owing under the convertible debt.

9 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 March 31, 2019, the Company paid this loan down by \$10,000 (December 31, 2018 - \$Nil) and during the three months ended

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

March 31, 2019 has accrued interest of \$32,230 (December 31, 2018 - \$49,344). The Company may repay the Demand Loan in full at any time prior to demand without notice or penalty.

10 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 was 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, 2017. The proceeds of the Short-term Loan were to provide capital for on-going operational and administrative costs of the Company. The Company may repay some or all of the outstanding balance of Short-term Loan without notice or penalty.

As security for the total Short-term Loan, if the Short-term Loan is not repaid by the maturity date, 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 the short-term debt was repaid with shares.

At March 31, 2019, the total amount outstanding under the Short-term Loan is \$Nil (December 31, 2018 - \$200,000), and at March 31, 2019 accrued interest owing is \$Nil (December 31, 2018 - \$43,193).

The following table summarizes the accounting of the Loan:

	\$
Balance, December 31, 2018	<u>200,000</u>
Payment	<u>(200,000)</u>
Balance, March 31, 2019	<u>-</u>

11 Note Payable and Credit Facility

- a) The Company closed a loan agreement (the "Loan Agreement") with a private company (the "Lender"), whereby the Lender issued to the Company a credit facility with the ability to borrow up to \$6,225,000 (the "Credit Facility"). The Lender is a significant shareholder of the Company. The Note Payable will have an interest free period until October 1, 2018, at which point the Note Payable 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 Note Payable was used to repay the Loan (note 9) and the part

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

of the convertible debt, with the balance being used for future acquisitions of oil and gas interests in South Texas and Alberta, including in the acquisitions noted below.

AT March 31, 2019, the total amount outstanding on the Loan is \$5,785,406, (December 31, 2018 - \$5,785,406) and during the three months ended March 31, 2019 accrued interest was \$449,708 (December 31, 2018 – \$291,207).

- b) As part of the PRI acquisition, the Company acquired a credit facility. The credit facility is due to a significant shareholder of the Company. The credit facility may be drawn up to \$4,600,000. At March 31, 2019 the principal balance was \$4,239,797 and unpaid interest \$906,282.

12 Short-term Loan

As part of the PRI acquisition, the Company acquired short term loans. The loans are due to a significant shareholder in the Company. Under the terms of the loan agreement the maturity date was September 15, 2015. These loans are unsecured and non-interest bearing. At March 31, 2019 \$534,520 was outstanding.

13 Share Capital

- a) Authorized

Unlimited number of common shares with voting rights
Unlimited number of preferred shares, issuable in series

- b) Issued

	Number of Common Shares	Amount \$
Balance, December 31, 2017	247,276,856	12,767,569
Private placement (i)	10,000,000	150,000
Value of warrants issued pursuant to private placement (i)	-	(145,237)
Share issue costs (i)	-	(1,900)
Private placement (iii)	20,000,000	500,000
Value of Warrants issued pursuant to private placement (iii)	-	(470,529)
Share issue costs (iii)	-	(6,154)
Expiry of warrants (note 13(c))	-	561,395
Share issuance costs for expired warrants	-	(5,006)
Balance, December 31, 2018	277,276,856	13,350,142
Shares for Debt (iv)	18,497,198	1,039,895
Private Placement (vi)	25,000,000	500,000
Expiry of warrants (v)	-	145,237
Shares issue costs for expired warrants(v)	-	(1,900)
Balance, March 31, 2019	320,774,054	15,033,374

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

- (i) On February 19, 2017, the Company completed a private placement (the “Private Placement”), issuing 50,000,000 units (the “Unit”). Each Unit was issued at \$0.02 for total proceeds of \$1,000,000, and consists of one common share of the Company and one share purchase warrant (the “Warrant”). As at December 31, 2017, the Company had not collected \$200,000 of the proceeds pursuant to the Private Placement. The amount was determined to be uncollectible and 10,000,000 Units were returned to treasury. Each Warrant entitled the holder to purchase one additional common share of the Company at \$0.05 per share, exercisable for 1 year from the original issue date. The Company allocated \$521,519 of the unit value to warrants (note 13(c)). Pursuant to the Private Placement, the Company incurred \$17,412 in cash share issue costs, of which \$6,061 was allocated to share capital and \$11,351 was allocated to warrants. During the nine months ended March 31, 2018, the Warrants expired unexercised.

- (ii) On August 23, 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”). As at March 31, 2018, the Company had not collected \$17,500 of the proceeds pursuant to the Private Placement. The amount was determined to be collectible. The amount was collected in a subsequent period. Each Warrant entitled the holder to purchase one additional common share of the Company at \$0.05 per share, exercisable for 1 year from the original issue date. The Company allocated \$187,802 of the unit value to warrants (note 13(c)). Pursuant to the Private Placement, the Company incurred \$8,530 in cash share issue costs, of which \$3,524 was allocated to share capital and \$5,006 was allocated to warrants.

- (iii) On December 20, 2017, the Company completed a private placement (the “Private Placement”), issuing 16,666,667 units (the “Unit”). Each Unit was issued at \$0.015 for total proceeds of \$250,000, and consists of one common share of the Company and one share purchase warrant (the “Warrant”). Each Warrant entitles the holder to purchase one additional common share of the Company at \$0.05 per share, exercisable for 1 year from the original issue date. The Company allocated \$249,891 of the unit value to warrants. Pursuant to the Private Placement, the Company incurred \$2,228 in cash share issue costs, which was allocated to the warrants.

- (iv) On February 2, 2019, the Company settled certain debt obligations by issuing 18,497,178 shares to a company controlled by a significant shareholder.

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

- (v) During the quarter warrants expired unexercised. \$145,237 was the value assigned to the warrants with associated issue costs of \$1,900. These amounts were reclassified to share capital.
- (vi) On January 23, 2019, the Company completed a private placement (the “Private Placement”), issuing 25,000,000 units (the “Unit”). 10,500,000 of these Units were acquired by an officer and director of the Company. Each Unit was issued at \$0.02 for total proceeds of \$500,000, and consists of one common share of the Company and one share purchase warrant (the “Warrant”). Each Warrant entitled the holder to purchase one additional common share of the company at \$0.05 per share, exercisable for 1 year from the original issue date.

c) Warrants

Warrants to acquire common shares outstanding at March 31, 2019 are as follows:

	Number of warrants issued and exercisable	Amount \$	Weighted average exercise price \$	Weighted average Remaining life (years)
Balance, December 31, 2017	48,666,667	556,389	0.05	0.14
Expiry of share purchase warrants	(48,666,667)	(561,395)	-	-
Share issuance costs for expired warrants	-	5,006	-	-
Share purchase warrants issued (note 13(b)(i))			0.05	
Share issue costs	-	(8,058)	-	-
Share purchase warrants issued (note 13(b)(ii))	10,000,000	145,237	0.05	1.0
Share purchase warrants issued (note 13(b)(iii))	20,000,000	470,529	0.05	1.0
	-	-	-	-
Balance, December 31, 2018	30,000,000	607,708	0.05	1.0
Expiry of warrants (note 13(b)(v))	(10,000,000)	(145,237)	-	-
Share issue costs for expired warrants		1,900	-	-
Balance, March 31, 2019	20,000,000	464,371	0.05	1.0

The fair value of the share purchase warrants granted during the year are estimated at the grant date using the Black-Scholes option pricing model and have been credited to warrants within shareholders’ deficit. A weighted average of the assumptions used in the calculation is noted below:

	2018
Risk-free rate	1.79%
Expected life	1 year
Expected volatility	428%
Fair value per warrant	\$0.021

Volatility was determined based on the Company’s historical share prices.

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

d) Stock options

The Company established a share option plan (the “Plan”) for the benefit of officers, directors, employees and consultants of the Company. Under the Plan, the number of common shares to be reserved and authorized for issuance pursuant to options granted under the Plan cannot exceed 10% of the total number of issued and outstanding shares of the Company. The term, the vesting period and the exercise price are determined at the discretion of the Board of Directors. However, the maximum option term shall not exceed five years.

During the three months ended March 31, 2019, there were no stock options granted, cancelled, exercised, or stock options that expired unexercised. The following table summarizes information about the Company’s stock options outstanding at March 31, 2019:

	March 31, 2019		December 31, 2018	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Stock options, beginning of period	6,700,000	0.05	6,700,000	0.05
Expired	-	-	-	-
Stock options outstanding, end of period	6,700,000	0.05	6,700,000	0.05

The total stock options outstanding at March 31, 2018 are as follows:

Exercise price (\$)	Options outstanding	Weighted average remaining term (years)	Weighted average exercise price (\$)
0.05	6,700,000	0.5	0.05

As at March 31, 2019, all stock options have vested and are exercisable.

During the three months ended March 31, 2019 and 2018, the Company did not recognize any share-based payment expense.

e) Per share data

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted loss per share. Under this method, it is assumed that proceeds from the exercise of dilutive securities are used by the Company to repurchase Company shares at the average price during the year.

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

All stock options have been excluded from the calculation of diluted shares outstanding as they would be anti-dilutive due to the loss position of the Company.

14 Related party transactions

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

a) The following amounts are due from related parties:

During the year ended December 31, 1999, a promissory note was issued by an officer of the Company bearing interest at 3% per annum with no fixed maturity date, unless the officer's employment is terminated or he is petitioned into bankruptcy wherein the note and accrued interest becomes immediately payable. During the year ended December 31, 2014, the Company revised the terms of the loan (the "Revised Promissory Note"), including fixed repayment terms and removing the term securing the note with 393,000 common shares of the Company. Historically the aggregate decline in the fair value of these common shares since the inception of the promissory note would offset the amount payable (December 31, 2013 – fair value allowance \$240,789). Under the Revised Promissory Note, a balance of \$247,970, including the principal of \$218,500 and accrued interest, is payable by the officer to the Company. The payments were to commence on December 31, 2015, and be paid annually in \$50,000 tranches until December 31, 2018, with the final payment of \$47,970 due on December 31, 2022. Interest is calculated at 1% per annum, and is payable annually commencing December 31, 2015, concurrently with each principal payment. The officer may repay the principal amount in whole or in part at any time. As at December 31, 2017, the officer had not yet paid the initial instalment, and the terms of the payments has been extended to begin on December 31, 2017. The terms of the loan agreement do not provide the Company with recourse to ensure repayment. Thus, the share purchase loan has been presented as a deduction from equity.

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

- (i) Aggregate fees of \$Nil (December 31, 2018 - \$Nil) were charged by directors of the Company all of which was recorded in the consolidated statement of comprehensive loss.
- (ii) Aggregate fees of \$Nil (December 31, 2018 - \$82,500) were charged by corporations, which are owned and controlled by other equity investors in PRI, and were all recorded as general and administrative costs.

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

- (iii) Included in accounts payable at March 31, 2018 was \$396,327 owing to officers of the Company (December 31, 2018 - \$437,042).

Key management compensation

During the quarter ended March 31, 2019, \$122,750 (December 31, 2018 - \$508,888) in management compensation was incurred. \$77,900 was recognized to the consolidated statement of comprehensive loss and \$44,850 was capitalized to property and equipment in the consolidated statement of financial position.

15 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, 2017. The current lease obligation is \$2,000 per month. At March 31, 2018, the Company had paid \$6,000 for the three months.
- b) The Company raised capital through the issuance of flow-through shares in 2009, 2010 and 2011 which provided indemnity to the subscriber for additional taxes payable if the Company was unable to, or failed to, renounce the qualifying expenditures as agreed. The Company was not able to spend \$824,338 of the flow-through funds raised. The Company is exposed to costs for the indemnification of the subscribers. The Company has estimated a potential liability on the amount of \$322,230 at March 31, 2019 (December 31, 2018 - \$290,567). The Company has also estimated a potential liability for penalties and taxes in the amounts of \$107,500 (December 31, 2018 - \$16,399) 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.

- 16** During the year ended December 31, 2015, the Company settled a contingent liability totaling \$145,512 with a third party who performed oil field services for the Company. The obligation is secured by a take in kind revenue arrangement from one of its gas wells to and in favor of the third party in case of default. The settlement was fair valued at \$107,912 using Level II valuation techniques with a discount rate of 25%. The Company is required to make 35 monthly payments of \$4,300 starting July 1, 2015 to May 1, 2018 and final installment of \$3,800 to be paid on September 1, 2018. As of March 31, 2019, the Company has not made payment in line with the agreed repayment schedule. Accordingly, the remaining balance of \$87,773 (December 31, 2018 - \$87,773) is now considered as due on demand.

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

17 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.

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 March 31, 2019, 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.

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

As at March 31, 2019, a provision for doubtful accounts of \$183,668 has been recorded by the Company (December 31, 2018 - \$187,341).

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 March 31, 2019, the Company's maximum exposure to liquidity risk is the total current liabilities of \$17,900,581 (December 31, 2018 - \$19,131,860).

18 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
March 31, 2019 (\$)	219,397	8,791	-	228,188
March 31, 2018 (\$)	266,388	6,611	3,731	276,730

Geographical segmentation is as follows:

	Three months ended March 31, 2019 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	13,969	214,219	228,188
Depletion, depreciation and impairment	613	109,062	109,675
Net loss	259,797	640,930	900,727
Property and equipment	5,553	6,009,767	6,015,320
Exploration and evaluation assets	32,430	2,996,469	3,028,899
Total liabilities	9,627,998	9,327,940	18,955,938

	Three months ended March 31, 2019 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	2,357	274,373	276,730
Depletion, depreciation and impairment	354	41,200	41,554
Net income (loss)	248,887	170,205	419,090
Property and equipment	399,756	5,116,390	5,516,146
Exploration and evaluation assets	1,671,288	2,524,830	4,196,118
Share of investment in PRI			
Investment in Partnership	203,839	203,838	407,677
Total liabilities	16,681,415	2,567,874	19,249,289

Emerald Bay Energy Inc.

Notes to the Consolidated financial statements

For the three months ended March 31, 2019 and 2018

19 Subsequent Events

Subsequent events have been evaluated through May 30, 2019, the date the consolidated financial statements are available to be issued.