

Emerald Bay Energy



MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with Emerald Bay Energy Inc. (the "Company") interim Consolidated Financial Statements for the three months ended September 30, 2019 and the audited annual Consolidated Financial Statements for the year ended December 31, 2018. Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

Additional information relating to the Company is available on SEDAR at www.sedar.com. The Company is listed on the TSX Venture Exchange under the symbol "EBY". The MD&A is dated November 29, 2019.

BASIS OF PRESENTATION

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

Application of Accounting Estimates

The significant accounting policies used by the Company are disclosed in Note 3 to the annual Consolidated Financial Statements for the year ended December 31, 2018. 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, 2019, the Company had not yet achieved profitable operations, had an accumulated deficit of \$27,631,507 since its inception (December 31, 2018 - \$25,805,078), had negative cash flows from operations of \$1,493,587 (December 31, 2018 \$421,375) and had a working capital deficiency of \$17,875,526 (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.

BOE Presentation

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

OVERALL PERFORMANCE AND OUTLOOK

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

HIGHLIGHTS OF THE THIRD QUARTER OF 2019 & EVENTS SUBSEQUENT TO THE QUARTER END:

On October 29, 2019 the Company reported on Initial Production results at DCRC.

- Emerald Bay Energy Inc.'s first two wells on the Duval County Ranch Company property have been equipped and put on production. The recently drilled No. 1HC well and the recompleted No. 15 well are flowing into the newly completed tank battery, and cumulative production from the two wells is approximately 55 barrels of oil per day. The additional three recently drilled wells, No. T4, No. 2HC and No. 3HC, are now being prepared for production and further information will be provided as it becomes available.

On September 4, 2019 the Company announced the Duval County Ranch Company (DCRC) project and provided the following update on South Texas operations.

- Emerald Bay Energy Inc. has provided an update on recent acquisitions and operations in south Texas. These operations follow Emerald Bay's overall strategy of consistent growth through acquisition of existing production, drilling and production optimization across multiple projects.
- Duval county –
 - The Duval County Ranch Company (DCRC) project is the latest acquisition the company has made with HugoCellR and CWS Energy Resources as partners. The project consists of five leases totalling 896 acres in the Piedre Lumbre and Petrox-Government Wells fields, first discovered by Humble Oil in Duval county in Texas. An oil major still owns the surface and deeper mineral rights on the lands, while the acquisition by Emerald Bay and the partners pertains to the shallow depths just below the Mirando sand (approximately 2,600 feet) to the surface. Initial development will take place on the 320-acre E lease. In addition to the cash flow generated to Emerald Bay for being the operator, it is estimated that this lease has the potential for up to 500 barrels of oil per day (bopd) be added (net 50 bopd to EBY after payout) in future drilling. The first four wells have been surveyed and staked, and a rig secured.
- Zavala county –
 - The previously announced Leona River project acquisition, with partner Cotulla Energy Resources Ltd., consists of five leases totalling 490 acres focusing on the Escondido and Olmos formations. Current production volume from the producing wells is approximately 100,000 cubic feet per day (15 barrels of oil equivalent per day (boepd)). In addition to the cash flow generated by being the operator and after the current optimization program is complete, the company estimates the five wells have the potential to add up to one million cubic feet per day (net 37.5 boepd to Emerald Bay). Optimization operations are now under way.
- Guadalupe county (Wooden Horse)
 - With the recent electrical infrastructure upgrades complete, comparing the first seven months of 2019 with 2018, the company has increased production by 163 per cent. The Austin Chalk production comes from a water drive system with low decline rates. Current production rates over the past 90 days have averaged 25 bopd (net 12.5 to Emerald Bay). With the company's 3-D seismic interpretation and well control, Emerald Bay is poised to move to a development phase of drilling operations. This will begin with the drilling and completion of Huebinger E1. Emerald Bay currently has identified up to seven vertical wells and the horizontal re-entry of Kuhn 1H for future development.
- Guadalupe county (Isabella)
 - The re-entry of Isabella No. 2 remains on the development schedule. While completion efforts in the Navarro were unsuccessful, the company and partners are optimistic they can achieve commercial success in either the Buda, Eagle Ford or Basal Austin Chalk formations.
- Guadalupe county (La Vernia)

- The company is currently in the final stages of negotiation to acquire additional lands with existing production in the LaVernia field. Emerald Bay and partner HugoCellR plan to expand their current land position and drilling inventory at LaVernia.
- Atascosa, Bexar and Medina counties (Somerset and Taylor-Ina fields)
 - Production optimization in the company's Production Resources Inc. (PRI) property has fuelled the growth in Somerset and Taylor-Ina. Emerald Bay has increased its optimization efforts by dedicating service rig No. 1 to Taylor-Ina and rig No. 2 to Somerset for workovers. As a result of this effort, production volume during Q2 increased 17 per cent (year over year) to 53 bopd (40 bopd net to Emerald Bay) and lease operating expenses decreased by 20 per cent.

On August 21, 2019 the Company acquired an interest in the Leona River Natural Gas wells.

- Emerald Bay Energy Inc., in partnership with Cotulla Energy Resources Ltd., acquired five natural gas wells and the mineral rights to approximately 490 acres in Zavala County, Texas. The Leona River project currently has three wells which are intermittently producing approximately 105 thousand cubic feet per day. The company is now implementing optimization processes on the three producing wells, and is working with Cotulla on plans to bring the additional two wells back on-line. Under terms of the of partnership agreement, Cotulla owns 75 per cent of the Leona River project, and Emerald Bay owns 25 per cent.

On August 15, 2019, the Company closed a \$500,000 Private Placement.

- Emerald Bay Energy Inc. closed its private placement in which 33,333,333 units were issued (of which 14,034,333 units were acquired by directors and officers of the corporation and 10,273,333 units were acquired by insiders of the corporation, Carlo Gutierrez and Clarence Wagenaar respectively) at a price of 1.5 cents per unit, for aggregate consideration of \$500,000. Each unit comprises one common share of the corporation and one share purchase warrant (each full warrant shall entitle the holder thereof to purchase one additional common share of the corporation for a period of 12 months from the issuance of the units at a price of five cents).

On July 31, 2019, the Company provided the following update on the Kuhn wells.

- With the electrical upgrades now complete, the three Kuhn wells were on production for 26 days in July and produced 1,022 barrels of oil for an average production rate of 39.3 barrels of oil per day.

On July 9, 2019, the Company announced a new board member, Mr. Carlo Gutierrez

- Emerald Bay Energy Inc. appointed Carlo Enrique Gutierrez to the corporation's board of directors. Mr. Gutierrez began his career in the summer of 2012 working at a frac-sand plant for Arepet Industries LLC as an assistant operations manager. In 2014, Mr. Gutierrez completed a bachelor of science degree in international studies from Texas A&M University. Following his graduation, Mr. Gutierrez worked for a small oil and gas company as a field operator, and then started his own trucking company, C.P. Hauling LLC, transporting frac sand. In 2016, Mr. Gutierrez transitioned into real estate and is licensed by the Texas Real Estate Commission, where he now works in land development and project management, and as a consultant for Vise Oaks 1 Ltd. Mr. Gutierrez has also served as a board member for the 211 public improvement district highway in San Antonio for the past two years. Mr. Gutierrez owns 24,140,200 common shares in the corporation.

HIGHLIGHTS OF THE FIRST & SECOND QUARTERS OF 2019:

On June 20, 2019, the Company provided the following update on the Isabella No. 2 re-entry well.

- Emerald Bay Energy Inc. has provided an update on operations at the Isabella No. 2 well in Gonzales county, Texas. Hydraulic fracturing of the Navarro formation has been completed, and the well has been swabbed for a total of 28 days to recover the frac fluids and measure inflow rates. In addition to the swabbing operations, the well has intermittently been shut in to monitor pressure builds. Approximately 75 per cent of the 2,132 barrels of fluids used to frac the well have been recovered during swabbing operations, but no measurable quantities of hydrocarbons from the Navarro formation have been observed to this point. The well has been shut in for the past nine days to allow time to monitor pressure builds.
- Pending results from this pressure test, the company and partner, Cotulla Energy Resources Ltd., will resume swabbing operations, or move forward with plans to resume testing the Buda formation and the primary target in the well, the Eagle Ford formation. While commercial quantities of hydrocarbons were observed in the initial test of the Buda, there was also a significant inflow of associated water. The company believes that the water is coming from the Austin Chalk formation, uphole from the Buda and Eagle Ford, and that a successful cement squeeze will isolate the Buda and Eagle Ford from the water, and increase the potential of successfully completing Isabella No. 2 in either formation. As noted in previous news releases, the Isabella No. 2 well is a re-entry well with multiple zones of interest, including the Buda, Eagle Ford, lower Austin Chalk and Navarro formations. To clarify, to date the company has tested commercial quantities of hydrocarbons in the initial test of the Buda formation and, due to certain opportunities in the area, the company and its partner Cotulla, decided to move uphole, bypassing the Eagle Ford and lower Austin Chalk for the time being, to test the Navarro formation.
- The Isabella prospect includes the company's acquisition of several mineral leases, totalling approximately 86 acres, and the Isabella No. 2 wellbore. The Isabella 2 well produced from the upper Austin Chalk formation in the past, but the previous operator did not drill to the deeper Eagle Ford and Buda formations. The company has identified the Isabella 2 wellbore as a prime target to explore for a high-impact deep well on trend with Eagle Ford, Buda and lower Austin Chalk production in Gonzales county, Texas. The company and Cotulla also identified the potential Navarro zone in the well, which is currently being tested.
- Under terms of the partnership agreement, Cotulla pays 100 per cent of the Isabella costs to earn a 75-per-cent interest. Emerald Bay retains a 25-per-cent interest in the well and acreage at no cost to the company.

On April 25, 2019, the Company completed the electrical upgrades on the Kuhn lease at the company's Wooden Horse project in south Texas.

- The upgrades will allow the company to pump the Kuhn 4 and Kuhn A5 wells simultaneously, as well as the Kuhn 3 well when it is brought on production.

On April 23, 2019, the Company began the process of fracture stimulating approximately 25 feet of the Navarro formation in the Isabella No. 2 re-entry well at a depth of 6,100 feet, and completed electrical upgrades at Wooden Horse.

- The frac was completed, and the company began swabbing the well to recover the frac fluids used during the operation. At the time of this writing swabbing are ongoing will then continue to assess the inflow rates and commercial viability of the Navarro formation.

On April 17, 2019, the Company completed the first phase of testing in the Isabella No. 2 re-entry well.

- The first phase included multiple cement squeezes to isolate fluids coming into the wellbore from the previous operator's completions. The company drilled to, and tested, the Buda formation at approximately 8,300 feet and found commercially viable results.

- Due to the partnership recently identifying additional opportunities in the area, the next step at Isabella was to isolate and test the Navarro formation at approximately 6,200 feet. The company scheduled a large, 200,000-pound frack to stimulate 25 feet of the Navarro.
- At the time of this writing, the Company has recently completed drilling operations of the Kuhn A5 well as an Austin Chalk target. The Company has identified potential in the Buda and Austin Chalk formations and completion operations to test both formations are being scheduled.

On March 14th, the Company completed testing the Bauer wildcat well.

- The well was drilled to test the Edwards formation, and it was determined that the Edwards was not commercially viable in this well.
- Additionally, the company tested the Poth and Wilcox formations and determined that neither formation has commercial quantities of hydrocarbons.
- The Bauer lease wildcat well was drilled in partnership with Cotulla Energy Resources Ltd. Under terms of the agreement, 100 per cent of the costs to drill and test the well were paid by Cotulla. Emerald Bay incurred no costs to drill and test the well.

On February 19th, the Company filed the initial daily production rates for the Floyd 1 well at 9.2 barrels of oil per day and the Floyd 2 well at 9.3 barrels of oil per day, for a combined 18.5 barrels of oil per day.

- The Floyd wells were the first two wells drilled on the F. Poenitz lease with the company's partner HugoCellr Ltd.
- Furthermore, the company wishes to clarify that the F. Poenitz lease and the Floyd wells were retained by Hugo, and are not part of Hugo's new partnership Cotulla Energy Resources Ltd.

On February 14th, the Company commenced the drilling of the wildcat test well at its Bauer prospect in south Texas.

- The Bauer wildcat test well is the first well drilled with the company's partner, Cotulla Energy Resources Ltd. Under terms of the agreement, Cotulla will pay 100 per cent of the costs of the well to earn a 75-per-cent interest. As managing partner and operator, Emerald Bay earns a 25-per-cent interest in the well at no cost to the company.
- Furthermore, the company looks forward to integrating the experience and expertise of Cotulla in the drilling of the Bauer wildcat well as well as the Company's exploration strategy going forward.

On February 11th, the Company provided the following update on the company's partner, HugoCellR Ltd.

- HugoCellR formed a new partnership with Cotulla Energy Resources Ltd., whereby Hugo will assign its entire interests in the Isabella re-entry and Bauer Wildcat wells to Cotulla.
- In addition to its participation in Emerald Bay's projects, Cotulla is moving forward with projects of its own. Cotulla's first project will be two existing Eagle Ford horizontal wells and one Pearsall gas well and Cotulla will be engaging Emerald Bay's subsidiary, Production Resources Inc., to operate these wells.
- It is the intent of Emerald Bay and Cotulla to work closely together in the future to identify mutually beneficial projects.

On February 4th, the Company received final approval from the TSX Venture Exchange and settled all amounts owing in connection with two separate loan/credit arrangements previously provided to the corporation by Hillcrest Investments Ltd., a company controlled by Clarence Wagenaar (who currently controls, directly and indirectly, 10.43 per cent of the outstanding common shares of the corporation) through the issuance of an aggregate of 18,493,178 common shares of the corporation at a price of five cents per share.

- The aggregate debt amounts settled is equal to \$924,658.90, being the aggregate balance of the principal amounts owing on the two separate loan/credit arrangements between the parties plus all applicable interest. Mr.

Wagenaar controls, directly and indirectly, an aggregate 31,537,000 common shares of the corporation, or 10.43 per cent of the outstanding common shares of the corporation.

- All of the foregoing common shares are subject to a statutory four-month hold period in accordance with applicable securities laws.

On January 23rd, the Company closed a \$500,000 private placement.

- Pursuant to this closing of the private placement, an aggregate of 25 million units were issued to nine subscribers (of which 2.5 million units were acquired by a director and officer of the corporation and eight million were acquired by an insider of the corporation) at a price of two cents per unit for aggregate consideration of \$500,000. Each unit consisted of one common share of the corporation and one share purchase warrant (each full warrant shall entitle the holder thereof to purchase one additional common share of the corporation for a period of 12 months from the issuance of the units at a price of five cents).

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

SELECTED YEAR TO DATE FINANCIAL INFORMATION

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
FINANCIAL				
Gross revenue	200,357	308,734	730,030	890,833
Total assets	9,915,293	10,981,580	9,915,293	10,981,580
Cash flows used in operations	915,034	342,175	2,157,743	628,145
Net comprehensive income (loss)	(490,665)	(379,700)	(1,998,667)	(1,186,274)
Per share – basic and diluted	0.00	0.00	0.00	0.00
OPERATIONS				
Production sales				
Oil (BBLs/d)	30	37	37	39
Natural gas (MCF/d)	65	90	66	72
NGL (BBLs/d)	2	2	2	2
Total (BOE/d @ 6 MCF: 1 BBL)	43	54	50	53
Average pricing				
Natural gas (\$/MCF)	.36	.52	.79	.75
Oil and NGL's(\$/BBL)	75.24	84.94	74.75	82.22
Combined (\$/BOE)	58.79	62.21	58.83	65.64
Expenses				
Production expense & transportation (\$/BOE)	32.11	21.27	35.06	20.95
Royalty expense (\$/BOE)	2.67	2.98	4.18	2.93
Net Back Combined (\$/BOE)	24.01	37.97	19.59	41.76

FINANCIAL AND OPERATIONS RESULTS

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

Consolidated petroleum and natural gas revenue was \$200,357 for the three months ended Sept 30, 2019, from \$308,734 for the three months ended September 30, 2018.

Sales – Nine months ended	Average Daily Volumes		Average Prices	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Natural Gas (mcf)	66	72	.79	.75
Oil and NGLs (bbls)	39	39	74.75	82.22
Barrels of Oil Equivalent (boe)	50	53	58.83	65.64

During the period ended September 30, 2019, the Company continued to focus its resources toward its current and future exploration program in Guadalupe County, Texas.

For the nine months ended September 30, 2019, natural gas production averaged 66 MCF/d compared to 72 MCF/d during the same period in 2018.

Natural gas prices were \$.79/MCF during the nine months ended Sept 30, 2019 compared to \$.75/MCF during the same period in 2018.

Oil and NGL prices were to \$74.75/bbl during the nine months ended Sept 30, 2019 from \$82.22/bbl for the same period in 2018.

For the nine months ended September 30, 2019, the average sales volume on a BOE/d basis increased to 50 BOE/d compared to 53 BOE/day for the nine months ended September 30, 2018.

The average sales price on a BOE basis was \$58.83/BOE during the nine months ended Sept 30, 2019, from \$65.64/BOE received in the nine months ended September 30, 2018

GENERAL & ADMINISTRATIVE EXPENSES

After recoveries, general and administrative expenses (“G&A”) were \$228,208 and \$789,014, respectively, during the three and nine months ended September 30, 2019 from \$283,808 and \$767,509, respectively, for the same period during 2018. The Company’s G&A is reflective of the Company’s efforts to expand its activities and progress with the exploration program in Texas.

	General & Administrative Expenses			
	Three months ended September 30		Nine months ended September 30	
	2019 (\$)	2018 (\$)	2019 (\$)	2018 (\$)
Net G&A expense	228,208	283,808	789,014	767,509

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 \$1,063,942 as at December 31, 2018 to \$1,071,498 as at September 30, 2019.

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	
	2019 (\$)	2018 (\$)	2019 (\$)	2018 (\$)
Depletion and depreciation	107,856	88,305	320,058	115,644

During the three and nine months ended June 30, 2019, depletion and depreciation expenses were \$107,856 and 320,058 respectively, compared to \$88,305 and \$115,644 during the same periods in 2018.

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.

CAPITAL EXPENDITURES

	Nine months ended September 30,	
	2019(\$)	2018 (\$)
Exploration and evaluation expenditure	94,728	675,428
Capital expenditures	481,186	115,644

The exploration and evaluation expenditures related to the Company's exploration program in Texas significantly decreased period over period as the Company began its next phase in the development and production of the exploration assets which have targeted the Austin Chalk and other formations.

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 2018	June 30 2018	Mar 31 2018	Dec 31 2017	Sept 30 2017	June 30 2017	Mar 31 2016	Dec 31 2016
Petroleum and natural gas sales	200	302	230	264	308	316	265	219
Net loss	(491)	(607)	(900)	(1,643)	(345)	(383)	(402)	(2,984)
Net loss per share								
Basic and diluted	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)
Average daily sales								
Natural gas (MCF/d)	65	54	32	88	90	18	18	15
Oil/NGL (BBLs/d)	32	42	39	40	39	43	37	36
Barrels of oil equivalent (BOE/d)	43	51	46	53	54	49	40	40
Average sales prices								
Natural Gas (\$/MCF)	.36	1.67	2.09	2.16	.52	2.92	2.66	2.60
Oil/NGL (\$/BBL)	75.24	77.55	66.45	89.47	84.94	80.64	75.58	59.66
Sales price of oil equivalent (\$/BOE)	58.79	63.65	63.35	67.95	62.21	75.88	73.88	60.15
Operating costs (\$/BOE)	32.11	40.92	32.74	34.44	21.27	35.51	39.29	39.75
Royalty Expense (\$/BOE)	2.67	1.98	2.25	2.22	2.98	2.65	.67	1.57
Operating netback (\$/BOE)	24.01	20.75	28.36	31.29	37.97	37.72	33.92	18.83

Explanation of Quarterly Variances

On a quarter by quarter basis, production volumes, and accordingly petroleum and natural gas sales, have increased with the consolidation of Emerald Bays financial with PRI. Canadian production has remained minimal, with a slight increase

in the current year to date. The Company continues to focus on the exploration and development of its Texas assets in Guadalupe County.

LIQUIDITY & CAPITAL RESOURCES

In order to resolve its working capital deficiency of \$17,875,526, 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.

During the first quarter of 2019, the Company arranged to settle \$924,658.90 of debt to a lender of the Company through the issuance of shares at \$0.05/share. Total shares issued were 18,493,178.

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

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

The Company has a long history of successful private placements and anticipates that it will be able to complete private placements in the future. At the time of this writing the Company has completed the following Private Placements in 2018, and 2019.

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

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

Purchase price: \$0.015per unit

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

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

Purchase price: \$0.025 per unit

On January 23, 2019, the Company was able to close the following private placement for proceeds of \$500,000:

Number of units: 25 million common share units (Each unit consists of one common share and one common share purchase warrant, exercisable for 12 months at a price of five cents.)

Purchase price: \$0.02 per unit

On August 15, 2019, the Company was able to close the following private placement for proceeds of \$500,000:

Number of units: 33.33 million common share units (Each unit consists of one common share and one common share purchase warrant, exercisable for 12 months at a price of five cents.)

Purchase price: \$0.015 per unit

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

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

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTIES

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

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

During the year ended December 31, 1999, a promissory note was issued by an officer of the Company bearing interest at 3% per annum with no fixed maturity date, unless the officer's employment is terminated or he is petitioned into bankruptcy wherein the note and accrued interest becomes immediately payable. During the year ended December 31, 2014, the Company revised the terms of the loan (the "Revised Promissory Note"), including fixed repayment terms and removing the term securing the note with 393,000 common shares of the Company. Historically the aggregate decline in the fair value of these common shares since the inception of the promissory note would offset the amount payable (December 31, 2013 – fair value allowance \$240,789). Under the Revised Promissory Note, a balance of \$247,970, including the principal of \$218,500 and accrued interest, is payable by the officer to the Company. The payments were to commence on December 31, 2015, and be paid annually in \$50,000 tranches until December 31, 2018, with the final payment of \$47,970 due on December 31, 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.
- (iii) Included in accounts payable at June 30, 2019 was \$401,245 owing to officers of the Company (December 31, 2018 - \$437,042).

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Key management compensation

During the nine months ended September 30, 2019, \$377,247 (December 31, 2018 - \$508,888) in management compensation was incurred. \$257,218 was recognized to the consolidated statement of comprehensive loss and \$120,029 was capitalized to property and equipment in the consolidated statement of financial position.

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

Corporate Cease Trade Orders

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

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

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

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

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

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

PROPOSED TRANSACTIONS

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Significant judgments

Determination of cash-generating units ("CGU")

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

Significant estimates and assumptions

Reserves

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

Decommissioning liabilities

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

Exploration and evaluation (“E&E”) assets

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

Share-based compensation

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

Recoverability of assets

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

Provision for doubtful accounts

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

IFRS 9, “Financial Instruments”: In July 2014, the IASB completed the final phase of its project to replace IAS 39, the current standard on the recognition and measurement of financial instruments. IFRS 9 is now the new standard which sets out the recognition and measurement requirements for financial instruments and some contracts to buy or sell non-financial items. IFRS 9 provides a single model of classifying and measuring financial assets and liabilities and provides for only two classification categories: amortized cost and fair value. Hedge accounting requirements have also been updated in the new standard and are now more aligned with the risk management activities of an entity. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted; however, if an entity elects to apply this standard early, it must disclose that fact and apply all of the requirements in this standard at the same time. It is anticipated that the adoption of IFRS 9 will not have a material impact on the Company’s consolidated financial statements.

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

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

OUTSTANDING SHARE DATA

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

	<u>November 29, 2019</u>	<u>December 31, 2018</u>
Common Shares	354,103,367	277,276,856
Warrants	58,333,333	30,000,000
Stock Options	6,700,000	6,700,000

Notes:

- (i) On January 23, 2019 the Company was able to close the following private placement for proceeds of \$500,000. Number of units: 25 million common share units (Each unit consists of one common share and one common share purchase warrant, exercisable for 12 months at a price of five cents.) Purchase price: \$0.020 per unit. All of the Common Shares and Warrants issued pursuant to the private placement were/are subject to a 4-month hold period. The terms of these private placements are according to the TSX Venture Exchange Discretionary Waivers of \$0.05 Minimum Pricing Requirement Bulletin dated April 7, 2014 and are subject to the final approval of the TSX Venture Exchange.
- (ii) On February 4, 2019, the Company settled all amounts owing in connection with two separate loan/credit arrangements previously provided to the corporation by Hillcrest Investments Ltd., a company controlled

by Clarence Wagenaar (who currently controls, directly and indirectly, 10.43 per cent of the outstanding common shares of the corporation) through the issuance of an aggregate of 18,493,178 common shares of the corporation at a price of five cents per share. The aggregate debt amounts settled is equal to \$924,658.90, being the aggregate balance of the principal amounts owing on the two separate loan/credit arrangements between the parties plus all applicable interest.

- (iii) On August 15, 2019, the Company closed its private placement in which 33,333,333 units were issued (of which 14,034,333 units were acquired by directors and officers of the corporation and 10,273,333 units were acquired by insiders of the corporation, Carlo Gutierrez and Clarence Wagenaar respectively) at a price of 1.5 cents per unit, for aggregate consideration of \$500,000. Each unit comprises one common share of the corporation and one share purchase warrant (each full warrant shall entitle the holder thereof to purchase one additional common share of the corporation for a period of 12 months from the issuance of the units at a price of five cents).

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

<u>Name and Municipality of Residence</u>	<u>Type of Ownership</u>	<u>Number of Common Shares</u>	<u>Percentage</u>
Clarence Wagenaar	Direct and Indirect ⁽¹⁾	43,793,511	13.65%

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

SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 29, 2019, the date the consolidated financial statements are available to be issued.