



NEXERA ENERGY INC.

**(FORMERLY, EMERALD BAY ENERGY INC.)**

# MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with Nexera Energy Inc (the "Company") interim Consolidated Financial Statements for the three months ended March 31, 2020, and the audited annual Consolidated Financial Statements for the year ended December 31, 2019. Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). The Company is listed on the TSX Venture Exchange under the symbol "NGY". The MD&A is dated July 14, 2020.

## 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, 2019. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a periodic basis. The emergence of new information and changed circumstance may result in actual results or changes to estimates that differ materially from current estimated amounts.

### Non-IFRS and Non-GAAP Measures

This MD&A includes the following measures that are from time to time used by the Company, but do not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies:

- a) "Funds from operations" - should not be considered an alternative to, or more meaningful than "cash flow from operating activities" as determined in accordance with IFRS as an indicator of the Company's financial performance. Funds from operations is determined by adding non-cash expenses to the net income or loss for the period, deducting decommissioning liability expenditures and does not include the change in working capital applicable to operating activities. Management believes that in addition to cash flow from operating activities, funds from operations is a useful supplemental measure as it provides an indication of the results generated by the Company's principal business activities before the consideration of how such activities are financed.
- b) "Operating netback" - Operating netbacks are calculated by deducting royalties and operating costs, including transportation costs, from revenues.
- c) "Working capital" – working capital includes total current assets and total current liabilities. The working capital ratio is calculated by deducting total current liabilities.

## Going Concern

At March 31st, 2020, the Company had not yet achieved profitable operations, had an accumulated deficiency of \$32,029,165 since its inception (December 31st, 2019 - \$31,253,464 ), had negative cash flows used in operations of \$98,126 (December 31st, 2019 – \$1,186,899) and had a working capital deficiency of \$18,622,825 (March 31st, 2019 - \$16,942,786) (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 statement of financial position 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. The Covid-10 global pandemic was just beginning to impact the Company's business operations toward the end Q1. The highlights below outlined the Company's progress during Q1, and subsequent to the end of Q1 to the writing of this MD&A.

### **HIGHLIGHTS OF THE FIRST QUARTER OF 2020:**

#### **On February 3, 2020 the Company announced that it had acquired the La Vernia assets from Advantagewon Oil Corp.**

- Comprising 30 oil and gas leases on approximately 3,550 acres, the Advantagewon Oil Corp. (AOC) assets are located in the LaVernia Field of Wilson and Guadalupe Counties, Texas.
- The purchase price paid to AOC for the assets is USD\$350,000 paid via: (i) a cash payment of USD\$50,000; and (ii) the issuance of 2,601,800 common shares (the "NGY Shares") of NGY (USD\$300,000 USD being CDN\$390,270 at \$0.15/share), subject to final approval from the TSX Venture Exchange.
- The NGY Shares issued to AOC are held in escrow by Nexera until December 31, 2020. On or before December 31, 2020, Nexera (or its designee) may acquire the NGY Shares for an aggregate USD\$300,000. Should NGY elect not to acquire the NGY Shares, the NGY Shares will be returned to NGY's treasury and the balance of the purchase price for the assets will be paid via an overriding royalty interest on the Acquired Leases being granted to AOC as follows: (i) a 5% overriding royalty interest on all the Acquired Leases with a net revenue interest of 75.0% or greater; (ii) a 2% overriding royalty interest on all the Acquired Leases with a net revenue interest of 72.0% up to, but not including, the Acquired Leases with a net revenue interest of 75.0% (note: no overriding royalty interest shall be assigned to AOC on all the Acquired Leases with a net revenue interest less than 72.0%). The overriding royalty interest shall be in place until such time as AOC has received an aggregate USD\$400,000.00 at which point the royalty interest shall be terminated.

#### **On March 2, 2020 the Company announced the results of the Special Meeting of Shareholders.**

- At the special meeting of the Company's shareholders held on February 28, 2020 the shareholders approved the following:
  - The consolidation of the issued and outstanding Common Shares of the Corporation on a "1 new for 15 old" basis.
  - Changing the Corporation's name from Emerald Bay Energy Inc to Nexera Energy Inc.
- The name change and consolidation took effect on March 13, 2020.
  - There were 354,103,367 Common Shares issued and outstanding pre-consolidation.
  - Post-consolidation there are 23,606,891 Common Shares issued and outstanding.

### **HIGHLIGHTS OF EVENTS SUBSEQUENT TO FIRST QUARTER OF 2020:**

#### **On April 16, 2020 Hugo A. Gutierrez acquired 50% of Nexera's La Vernia assets.**

- Hugo A. Gutierrez acquired a 50% interest in the La Vernia properties for USD \$186,000. The La Vernia assets had been acquired from Advantagewon Oil Corp. on February 3, 2020.

#### **On April 30, 2020 the Company provided the following update on oil production storage plans during Covid-19 Pandemic:**

- In response to the low commodity prices brought about by the Covid-19 pandemic, the Company added additional storage tanks on certain leases and, on most leases, the Company has the ability to continue to produce and store

oil for up to six months without having to shut wells in. Additionally, the Company has the resources in place to efficiently maintain operations, even in the unlikely scenario that the Company does not sell any oil in a given month.

**On May 19, 2020 the Company announced that it had negotiated new leases in La Vernia, Texas:**

- At LaVernia, the company completed negotiations to re-lease the Schertz and Schertz Sanchez leases at a new royalty structure that is significantly more attractive to the company in the current pricing environment. The two leases comprise 26 wells on approximately 200 acres and operations have begun to bring the wells on line.
- Additionally, the company was been informed by its oil gatherer that sales will be able to resume in the month of June at the company's contracted premium rates of West Texas Intermediate plus \$2.25 to \$6 per barrel.

**On June 22, 2020 the Company announced that operations had begun on the Huebinger E1 well:**

- Nexera Energy Inc. commenced operations to survey and permit a new well drilling location on the Huebinger lease at the company's Wooden Horse project in southern Texas.
- The proposed Huebinger E1 well represents the next phase of drilling at Wooden Horse. Using seismic interpretation and well control, the company will drill the Huebinger well structurally up-dip from the producing Kuhn 3 and Kuhn A5 wells. The Huebinger well will be drilled to the top of the Austin Chalk formation where oil production is coming from a water drive system with low decline rates. The company is currently producing approximately 25 barrels of oil per day (bopd) from this formation in the Kuhn wells and the company anticipates significantly better results from the up-dip location chosen for the Huebinger well

**On July 13, 2020 announced the partnership with API Horizon Joint Venture at the Stockdale Prospect**

- Nexera Energy Inc. has agreed to terms with API Horizon Joint Venture of Dallas, Tex., to drill a new 5,000-foot, short-radius horizontal well on the company's Stockdale Horizon prospect. Horizon JV will pay 100 per cent of the drilling and completion costs to earn a 75-per-cent working interest in the well. Nexera will retain a 25-per-cent working interest in the well at no cost to the company.
- The Stockdale Horizon prospect has been developed to target potential high-impact directional and horizontal wells in the Austin Chalk formation at approximately 5,000 feet deep.

The Company will continue to pursue a carefully designed capital expenditure program at the Company's Stockdale Prospect, La Vernia assets, and Wooden Horse Kuhn Wells, as well as opportunities similar to the API Horizon JV, HugoCellR, 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 March 31	
	2020	2019
<b>FINANCIAL</b>		
Gross revenue	310,238	229,188
Total assets	6,770,395	10,002,014
Cash flows provided by (used in) operations	853,664	(1,451,509)
Net comprehensive loss	738,210	900,727
Per share – basic and diluted	(0.03)	(0.00)
Exploration and evaluation expenditures		
<b>OPERATIONS</b>		
<b>Production sales</b>		
Oil (BBLs/d)	47	39
Natural gas (MCF/d)	20	32
NGL (BBLs/d)	-	1
Total (BOE/d @ 6 MCF: 1 BBL)	50	46
<b>Average pricing</b>		
Natural gas (\$/mcf)	4.58	2.08
Oil/NGL's combined (\$/bbl)	69.19	66.45
Combined (\$/boe)	66.42	63.35
<b>Expenses</b>		
Production expense & transportation (\$/BOE)	46.71	32.74
Royalty expense (\$/BOE)	17.15	2.25
<b>Net Back Combined (\$/BOE)</b>	<b>2.56</b>	<b>28.36</b>

### 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 \$310,238 for the three months ended March 31, 2020, from consolidated revenue of \$229,188 for the three months ended March 31, 2019 as commodity prices were higher lower in the first three months of 2020.

### OPERATING RESULTS

Sales – Three months ended	Average Daily Volumes		Average Prices	
	March 31, 2020	March 31, 2019	March 31, 2020	March 31, 2019
Natural Gas (mcf)	20	32	4.58	2.08
Oil (bbls)	47	39	69.19	66.45
NGL (bbls)	-	1	-	-
<b>Barrels of Oil Equivalent (boe)</b>	<b>50</b>	<b>46</b>	<b>66.42</b>	<b>63.35</b>

During the period ended March 31, 2020, the Company acquired the La Vernia assets and continued to focus its resources toward future exploration programs in Guadalupe and Gonzales Counties, Texas.

For the three months ended March 31, 2020 natural gas sales decreased slightly to 20 MCF/d compared to 32 MCF/d during the same period in 2019, and natural gas prices were \$4.58/MCF during the three months ended March 31, 2020 compared to \$2.08/MCF during the same period in 2019.

Oil sales increased from 39 bbl/day for the period ended March 31, 2019 to 47 bbl/day for the same period in 2020, and increase of 30%. Oil prices were \$69.19/bbl during the period compared to \$66.45/bbl during the three months ended March 31, 2019.

NGL sales on a daily basis remained negligible, generating only minimal revenue during the three months ended March 31, 2020 and 2019.

During the three months ended March 31, 2020, the average sales volume on a BOE/d basis increased to 50 BOE/day compared to 46 BOE/day for the three months ended March 31, 2019.

## GENERAL & ADMINISTRATIVE EXPENSES

After recoveries, general and administrative expenses (“G&A”) decreased to \$174,648 during the three months ended March 31, 2020 from \$289,201 for the same period during 2019. The decrease in the Company’s G&A is reflective of the Company’s initiatives to lower overhead costs associated with operations being almost exclusively based now in South Texas.

	<b>General &amp; Administrative Expenses</b>	
	<b>March 31, 2020 (\$)</b>	<b>March 31, 2019 (\$)</b>
<b>Net G&amp;A expense</b>	174,648	289,201

## DECOMMISSIONING LIABILITIES

Decommissioning liabilities are the present value of management’s estimate of future costs to be incurred to properly abandon and reclaim the properties held by the Company. Accretion expense is the increase in the decommissioning liability resulting from the passage of time. Decommissioning liabilities decreased to \$1,429,263 as at March 31, 2020 from \$1,063,942 as at December 31, 2019 and reflect the additional liability associated with the La Vernia acquisition.

## DEPLETION & DEPRECIATION

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

	<b>Depletion and Depreciation</b>	
	<b>March 31, 2020 (\$)</b>	<b>March 31, 2019 (\$)</b>
<b>Depletion and depreciation</b>	84,969	109,675

During the three months ended March 31, 2020, depletion and depreciation expenses were \$84,969, compared to \$109,675 during the same period in 2019.

## CAPITAL EXPENDITURES

	<b>Three months ended March 31,</b>	
	<b>2020 (\$)</b>	<b>2019 (\$)</b>
Exploration and evaluation expenditure	-	(147,042)
Capital expenditures	(430,888)	302,324



Capital expenditures on petroleum and natural gas property and equipment were reflective of foreign exchange translation during the period.

## 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.

<b>Quarterly Financial Information</b> (\$000 except per share and unit values)	<b>Mar 31</b> <b>2020</b>	<b>Dec 31</b> <b>2019</b>	<b>Sept 30</b> <b>2019</b>	<b>June 30</b> <b>2019</b>	<b>Mar 31</b> <b>2019</b>	<b>Dec 31</b> <b>2018</b>	<b>Sept 30</b> <b>2018</b>	<b>June 30</b> <b>2018</b>
Petroleum and natural gas sales	310	366	200	302	230	264	308	316
Net loss	(738)	(3,856)	(491)	(607)	(900)	(1,643)	(345)	(383)
Net loss per share								
Basic and diluted	(0.03)	(0.02)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)
<b>Average daily sales</b>								
Natural gas (MCF/d)	20	17	65	54	32	88	90	18
Oil/NGL (BBLs/d)	47	40	32	42	39	40	39	43
Barrels of oil equivalent (BOE/d)	50	43	43	51	46	53	54	49
<b>Average sales prices</b>								
Natural Gas (\$/MCF)	4.58	5.80	.36	1.67	2.09	2.16	.52	2.92
Oil/NGL (\$/BBL)	69.19	73.26	75.24	77.55	66.45	89.47	84.94	80.64
Sales price of oil equivalent (\$/BOE)	66.42	75.80	58.79	63.65	63.35	67.95	62.21	75.88
Operating costs (\$/BOE)	46.71	25.13	32.11	40.92	32.74	34.44	21.27	35.51
Royalty Expense (\$/BOE)	17.15	3.41	2.67	1.98	2.25	2.22	2.98	2.65
Operating netback (\$/BOE)	2.56	47.26	24.01	20.75	28.36	31.29	37.97	37.72

### Explanation of Quarterly Variances

On a quarter by quarter basis, production volumes, and accordingly petroleum and natural gas sales, have increased with the consolidation of Emerald Bays financial with PRI. Canadian production remained minimal, with little fluctuation. The Company continues to focus on the exploration and development of its South Texas assets and completed the acquisition of the La Vernia properties in Q1, 2020.

## LIQUIDITY & CAPITAL RESOURCES

In order to resolve its working capital deficiency of \$18,622,825, and to access additional share equity, the Company will continue to emphasize its exploration program in Texas.

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.

- 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.

## **LOANS AND CREDIT FACILITIES**

### **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 (\$204,750 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 years ended December 31, 2015 and 2014, the Lender advanced an additional loan amount of \$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. 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 issued to the Lender 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.

During the year ended March 31<sup>st</sup>, 2020, the Company incurred interest of nil (March 31<sup>st</sup>, 2019 - \$31,601) and the carrying amount of the Advances are nil (2018 - \$379,750).

On May 31, 2018, the Company entered into an agreement to settle the convertible debt and short-term loan (Note 13(a)). The convertible debt and the short-term loan had aggregate accrued interest of \$301,686 recorded in accounts payables and accrued liabilities. On February 4, 2019, the Company received regulatory approval and settled all amounts owing via the issuance of 15,493,178 common shares of the Company at a price of \$0.05 per share for a total of \$924,659 (Note 15(a)). The Company's share price was trading at \$0.02 per common share on this date and \$554,795 was recorded to contributed surplus to record the difference in share price at the date of settlement as it was determined that the shareholder creditor was acting in its capacity as a shareholder. The related party controlled directly and indirectly 31,537,000 common shares of the Company on February 10, 2019, the date the shares were issued. The shareholder creditor waived all additional interest from May 31, 2018, the date of the settlement agreement.

### **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 Demand Loan is due on the demand of the Lender and bears interest of 8.00% per annum, compounded monthly. At March 31<sup>st</sup>, 2020, the Company paid down the loan to \$75,000 (March 31<sup>st</sup>, 2019 - \$105,500) and has accrued interest of \$3,178 (March 31<sup>st</sup>, 2019 - \$49,344). The Company may repay the Demand Loan in full at any time prior to demand without notice or penalty.

### Short-term loan

- a) During the year ended December 31, 2016, the Company received a short-term loan (the "Short-term Loan") from the Lenders associated with the Convertible debt (note 11), 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, 2016. The Company may re-pay some or all of the outstanding balance of Short-term Loan without notice or penalty.

As security for the total Short-term Loan, if the Short-term Loan is not repaid by the maturity date (December 1, 2016), at the option of the Lenders (the "Option"), the Lenders may acquire the 10% equity investment in PRI for an amount equal to the amounts owing by the Company to the Lenders at that time. If the option is exercised by the Lenders, the Lenders have granted the Company the ability to re-acquire the 10% equity investment in PRI for a period of 9 months from Option exercise date insofar as the Short-term Loan is fully repaid.

At March 31<sup>st</sup>, 2020, the total amount outstanding under the Short-term Loan is nil (March 31<sup>st</sup>, 2019 - \$200,000), and during the year ended March 31<sup>st</sup>, 2020 incurred interest of nil (March 31<sup>st</sup>, 2019 - \$nil). The Short-term loan and accrued interest was settled for common shares on February 4, 2019 (Note 11).

The following table summarizes the accounting of the Loan:

	\$
<b>Balance, December 31, 2017</b>	<b>225,000</b>
Repayment of loan	(25,000)
<b>Balance, March 31<sup>st</sup>, 2018</b>	<b>200,000</b>
Settled through issuance of common shares	(200,000)
<b>Balance, December 31<sup>st</sup>, 2019</b>	<b>-</b>

### 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 Note payable with the ability to borrow up to \$6,250,000 (the "Note payable"). The Lender is a significant shareholder of the Company. The Note Payable will have an interest free period until October 1, 2017, at which point the Note payable will bear interest at a rate equal to Prime Rate plus 1.5% per annum. The Note payable is payable upon demand by the Lender, and is secured over all of the assets of the Company.

During the year ended March 31<sup>st</sup>, 2019, the company transferred their units in the Partnership to a related party (Note 7). The transfer of the units resulted in a draw down on the related party loan for \$407,677.

At March 31<sup>st</sup>, 2020, the total amount outstanding under the Loan is \$5,785,406, (December 31<sup>st</sup>, 2018 - \$5,785,406), and during the year ended December 31<sup>st</sup>, 2019, the Company incurred interest of \$438,615 (December 31<sup>st</sup>, 2019 - \$291,207). Total accrued interest is \$729,822.

- b) As part of the PRI acquisition, the Company acquired a credit facility. The credit facility is due to a significant shareholder in the Company. The Credit facility may be drawn up to \$4,600,000. At March 31<sup>st</sup>, 2020 the principal balance was \$4,472,860 (2019 - \$4,239,797) and unpaid interest is \$1,363,633. Interest of \$117,530 (March 31<sup>st</sup>, 2019 - \$906,282) was expensed in the statement of comprehensive loss. The Credit facility bears interest at 9% and repayment terms are at 35% of PRI gross revenues. The credit facility is secured by Deed of Trust and financing statements. At year end, the Company was not in compliance with repayment terms and as such, this credit facility has been classified as a current liability.

Additionally, although the Company was under a cease trade order for almost a year (July 2016 – April 2017), 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 to date in 2019.

#### **EQUITY FINANCINGS**

- 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: \$0.015 per 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: \$0.020 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.

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

Number of units: 33,333,333 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 placement were/are subject to a 4-month hold period. The terms of these private placements are according to the TSX Venture Exchange Discretionary Waivers of \$0.05 Minimum Pricing Requirement Bulletin dated April 7, 2014 and are subject to the final approval of the TSX Venture Exchange.

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

## **OFF BALANCE SHEET ARRANGEMENTS**

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

## **RELATED PARTIES**

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

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

During the year ended December 31, 1999, a promissory note was issued by an officer of the Company bearing interest at 3% per annum with no fixed maturity date, unless the officer's employment is terminated or he is petitioned into bankruptcy wherein the note and accrued interest becomes immediately payable. During the year ended December 31, 2014, the Company revised the terms of the loan (the "Revised Promissory Note"), including fixed repayment terms and removing the term securing the note with 393,000 common shares of the Company. Historically the aggregate decline in the fair value of these common shares since the inception of the promissory note would offset the amount receivable (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 March 31st, 2019, with the final payment of \$47,970 due on December 31, 2022. Interest is accruing 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 of March 31<sup>st</sup>, 2020, the officer had not yet paid the initial instalment, and the payment term has been extended to begin on March 31<sup>st</sup>, 2020. 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 31st, 2019 - \$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 31st, 2019 - \$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 March 31<sup>st</sup>, 2020 was \$467,520 owing to officers of the Company (December 31st, 2019 - \$536,852).

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#### *Key management compensation*

During the period ended March 31<sup>st</sup>, 2020, \$103,217 (December 31st, 2019 - \$573,886) in management compensation was incurred. Of which, \$103,217 was recognized to the consolidated statement of comprehensive loss (December 31st, 2019 – \$413,109) and \$nil was capitalized to property and equipment in the consolidated statement of financial position (December 31st, 2019 - \$160,777).

#### *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>July 14, 2020</u>	<u>December 31, 2019</u>
Common Shares	23,606,891	354,103,367
Warrants	2,222,222	58,333,333
Stock Options	Nil	Nil

### Notes:

- (i) On January 23, 2019, the Company completed a private placement (the "Private Placement"), issuing 25,000,000 units (the "Unit"). 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. The Company allocated \$388,928 of the unit value to warrants (note 15(b)). Pursuant to the Private Placement, the Company incurred \$15,479 in cash share issue costs, which was allocated to the shares. The warrants have expired subsequent to year-end. 21,500,000 units were issued to directors, officers, and existing shareholders.
- (ii) On August 15, 2019, the Company completed a private placement (the "Private Placement"), issuing 33,333,333 units (the "Unit"). Each Unit was issued at \$0.015 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. The Company allocated \$445,320 of the unit value to warrants (note 15(b)). Pursuant to the Private Placement, the Company incurred \$8,704 in cash share issue costs, which was allocated to the shares. 30,307,666 units were issued to directors, officers, and existing shareholders.
- (iii) On February 28, 2020, the Company held a special meeting of the shareholders whereby the shareholders approved a consolidation of the issued and outstanding shares of the Company on a "1 new for 15 old" basis and changed the name of the Company from Emerald Bay Energy Inc. to Nexera Energy Inc. (formerly "Emerald Bay Energy Inc.") The Company's new stock symbol for trading on the TSX Venture Exchange is "NGY".

## SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 14, 2020, the date the consolidated financial statements are available to be issued.