

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Consolidated financial statements

For the Nine Months Ended September 30, 2020 and 2019

(expressed in Canadian dollars)

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Consolidated Statements of Financial Position

For the Nine Months Ended September 30, 2020 and September 30, 2019

	September 30, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash	208,129	206,898
Short-term investments	348,918	331,075
Trade and other receivables (note 21(b))	622,462	466,578
Prepaid expenses and deposits	16,955	66,986
Total current assets	1,196,464	1,071,537
Non-current assets		
Exploration and evaluation assets and other intangible assets (note 8)	-	2,787,129
Property and equipment (note 6)	5,664,204	6,056,627
Total assets	6,860,668	9,915,293
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 21(c))	8,564,569	8,048,511
Shareholder indemnity (note 19(a))	291,628	300,080
Short-term loan (note 13(b))	533,560	527,720
Convertible debt (note 11)	-	-
Demand loan (note 12)	75,000	75,000
Short-term loan (note 13(a))	-	-
Credit facility (note 14(b))	4,127,311	4,201,724
Note payable (note 14 (a))	5,870,269	5,785,406
Other liabilities (note 19(b))	111,496	6,622
Lease liability – short-term (note 18)	(3,657)	-
Total current liabilities	19,570,176	18,947,063
Non-current liabilities		
Lease liability (Note 18)	110,977	-
Decommissioning obligations (note 10)	1,765,599	1,071,498
Total liabilities	21,446,752	20,018,561
Shareholders’ deficiency		
Share capital (note 15(a))	15,303,532	15,078,949
Warrants (note 15(b))	-	871,070
Contributed surplus	2,441,269	1,886,474
Share purchase loan (note 17(a))	(247,970)	(247,970)
Deficiency	(32,242,232)	(27,631,507)
Non-controlling interest in PRI	(382,842)	(164,183)
Accumulated other comprehensive income	542,159	103,899
Total shareholders’ deficiency	(14,586,084)	(10,103,268)
Total liabilities and shareholders’ deficiency	6,860,668	9,915,293
Reporting entity and going concern (note 1)		

Approved on behalf of the Board of Directors

Signed “Shelby D. Beattie”

Director

Signed “Gibson C. Scott”

Director

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Consolidated Statements of Comprehensive Loss

For the Three and Nine Months Ended September 30, 2020 and 2019

	For the three months ended		For the nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	\$	\$	\$	\$
Revenue				
Petroleum and natural gas revenue	241,853	200,257	738,556	730,030
Other revenue	63,155	18,924	348,088	77,072
Royalties	(60,034)	1,228	(187,728)	20,335
	244,974	220,409	898,916	827,437
Operating expenses				
Production and operating expenses	131,484	120,387	578,470	465,176
Depletion and depreciation (note 5)	280,195	107,856	295,960	320,058
General and administrative	149,359	228,208	507,868	789,014
Foreign exchange (gain)	-	(86,372)	(13,331)	451,877
	561,038	370,079	1,368,967	2,026,125
Results from operating activities	(316,064)	(149,670)	(470,051)	(1,198,688)
Finance expense				
Interest expense	(186,512)	(274,538)	(570,448)	(614,957)
Accretion of decommissioning obligations (note 7)	(1,977)	(5,457)	(4,511)	(12,784)
Debt Forgiveness	-	-	-	-
Net finance expense	(188,489)	(279,995)	(574,959)	(627,741)
Net Income (loss) for the period	(504,553)	(429,655)	(1,045,010)	(1,826,429)
Other comprehensive loss				
Net (loss) gain on available for sale assets	-	-	-	-
Non-controlling interest in PRI	(73,777)	(61,267)	(135,981)	(172,238)
Foreign currency translation adjustment	5,982	-	42,248	-
Total comprehensive Income (loss) for the period	(572,348)	(490,932)	(1,138,743)	(1,998,667)
Basic and fully diluted loss per share(note 13(e))	(0.02)	(0.00)	(0.04)	(0.00)
Weighted average number of common shares outstanding during the period	23,606,891	337,440,701	23,606,891	311,917,697

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Statements of Changes in Deficit

For the Nine Months Ended September 30, 2020 and December 31st, 2019

	Share capital \$	Warrants \$	Contributed surplus \$	Share purchase loan \$	Deficiency \$	Non-Controlling Interest \$	Accumulated other comprehensive loss \$	Total deficiency \$
Balance, December 31st, 2018	13,350,142	607,708	1,886,474	(247,970)	(25,805,078)	8,055	348,579	(9,852,091)
Reallocation expiry of warrants	615,762	(615,762)	-	-	-	-	-	-
Issue costs for expired warrant	(8,054)	8,054	-	-	-	-	-	-
Loss for the year	-	-	-	-	(5,448,386)	(319,440)	-	(5,767,826)
Settlement of short-term note and convertible notes	369,864	-	554,795	-	-	-	-	924,659
Private placement, net of issue costs	141,569	834,248	-	-	-	-	-	975,817
Foreign exchange translation to presentation currency	-	-	-	-	-	64,525	193,580	258,105
Balance, December 31st, 2019	14,469,283	834,248	2,441,269	(247,970)	(31,253,464)	(246,861)	542,159	(13,461,336)
Reallocation expiry of warrants	834,248	(834,248)	-	-	-	-	-	-
Loss for the year	-	-	-	-	(1,031,016)	(135,981)	-	(1,166,997)
Foreign exchange translation to presentation currency	-	-	-	-	42,248	-	-	42,248
Balance, September 30, 2020	15,303,531	-	2,441,269	(247,970)	(32,242,232)	(382,842)	542,129	(14,586,084)

The notes are an integral part of these consolidated financial statements.

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2020 and 2019

	September 30, 2020	September 30, 2019
	\$	\$
Cash (used in) provided by:		
Operating activities		
Net loss for period	(1,042,010)	(1,396,764)
Adjustments for:		
Depletion and depreciation (note 6)	295,960	212,202
Goodwill impairment (note 9)	-	-
Impairment of exploration and evaluation assets (note 8)	-	-
Impairment of property and equipment (note 6)	-	-
Accretion of decommissioning obligation (note 10)	576,188	7,327
Interest on lease liability (note 18)	-	-
Deferred tax recovery (note 16)	-	-
Unrealized foreign exchange gain	(13,331)	-
	(186,193)	(1,177,235)
Change in trade and other receivables	(575,880)	(411,060)
Change in prepaid expenses and deposits	(20)	(29,099)
Change in accounts payable and accrued liabilities	1,794,967	(812,064)
Change in shareholder indemnity (note 19 (b))	-	9,514
	1,033,174	(1,242,709)
Investing activities		
Property and equipment expenditures (note 6)	(746,949)	(16,504)
Exploration and evaluation expenditures (note 8)	-	(146,675)
Change in short-term investments	-	14,075
Proceeds from farm-out agreement (note 8)	-	-
	(746,949)	(227,926)
Financing activities		
Proceeds from issuance of common shares, net of issue costs (note 15 (b))	-	500,000
Repayment of other liabilities	-	-
Lease payments	(92,246)	-
Repayment of short-term loan (note 13)	-	-
Repayment of Note payable	(84,863)	-
Shares for Debt	-	1,539,895
Increase in other liabilities	-	125,453
Receipt (repayment) of demand loan (note 12)	-	-
	(177,109)	2,165,348
Change in cash	109,116	(482,522)
Cash, beginning of year	99,013	623,380
Cash, end of year	208,129	140,858

Supplemental cash flow information (note 20)

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

1 Reporting entity and going concern

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”) (the “Company”) was incorporated under the Business Corporations Act of Alberta on May 9, 1997 and is listed on the TSX Venture exchange. The Company is engaged in the exploration for and development of petroleum and natural gas properties, principally in Alberta, Canada and Texas, USA. The Company is listed on the TSX Venture exchange under the symbol “NGY.V”. The Company’s registered head office is located at 11411 – 54th Street South East, Calgary, Alberta, Canada T2G 5R9.

At September 30, 2020, the Company had not yet achieved profitable operations, had an accumulated deficiency of \$32,242,232 since its inception (December 31st, 2019 - \$31,253,464), had negative cash flows used in operations of \$93,733 (December 31st, 2019 – \$1,186,899) and had a working capital deficiency of \$18,373,712 (September 30, 2019 - \$17,875,526) (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.

In March 2020, the World Health Organization declared a global pandemic related to the virus known as COVID-19. The expected impacts on global commerce are anticipated to be far reaching. To date there have been significant wide-spread stock market declines and the movement of people and goods have been restricted, affecting supply, demand and pricing for many products. The mineral exploration sector is expected to be impacted significantly as many local and regional governments have issued public health orders in response to COVID-19, including restricting the movement of people, which could impact the Company’s ability to access its properties, complete exploration projects, and continue development or production programs in the coming year. The Company’s ability to fund the current level of operating costs in the face of an extended disruption may be affected, and the Company may be required to adjust operating levels or obtain additional financing which may be restricted. In order to minimize the loss from

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

operations due to low crude oil price, the company has implemented staffing reductions in the field and during the past two months has continued to store oil until commodity prices rebound.

2 Basis of presentation

a) Statement of compliance:

These annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The Board of Directors approved the consolidated financial statements on November 15, 2020.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis.

c) Basis of consolidation:

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

d) Nature and purpose of equity and reserves:

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

‘Contributed surplus’ is used to recognize the value of stock options and broker warrants prior to exercise as well as residual amounts from transactions with shareholders acting in their capacity as shareholders.

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

‘Deficiency’ is used to record the Corporation’s change in deficiency from profit or loss from year to year.

e) Use of estimates and judgements:

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, 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.

Significant judgements

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 judgement.

Functional currency determination

The functional currency for the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency is conducted through an analysis of the consideration factors identified in IAS 21. The Effects of Changes in Foreign Exchange Rates and may involve certain judgements to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment. Significant changes to those underlying factors could cause a change to the functional currency.

Significant estimates and assumptions

Reserve estimates

The estimate of reserves is used in forecasting the recoverability and economic viability of the Company’s oil and gas properties, and in the depletion and impairment calculations. Reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Company’s oil and gas properties. The Company’s estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves,

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

Decommissioning obligations

The Company estimates the decommissioning obligations for oil and natural gas wells and their associated production facilities and pipelines. 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.

Going Concern

The financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgement to assess the Company’s ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

Shareholder indemnity

The accounting policy for the shareholder indemnity liability is described in note 19(a). The application of this policy requires management to make certain estimates and assumptions as to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreement, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency.

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 (“FVLCTS”) and its value in use. The Company used the calculation of FVLCTS to determine the fair value of its CGUs. In determining the FVLCTS, the amount is most sensitive to the future commodity prices, discount rates, and estimates of proved and probable reserves.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

Cash

Cash include cash on hand and deposits held with banks. Bank overdrafts that are repayable on demand and form an integral part of the Company’s cash management, whereby management has the legally enforceable right and ability and intent to net bank overdrafts against cash, are included as a component of cash for the purpose of the consolidated statement of cash flows.

Property and equipment and exploration and evaluation assets

Recognition and measurement:

(i) E&E expenditures:

Pre-license costs are recognized in the consolidated statement of comprehensive loss as incurred.

All costs associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproven property acquisition costs, exploration costs, geological and geophysical costs, decommissioning costs, E&E drilling, and sampling and appraisals.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment and transferred to property and equipment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to the consolidated statement of comprehensive loss as impairment of exploration and evaluation costs.

(ii) Property and equipment:

All costs directly associated with the development of oil and gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proven property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets.

Costs accumulated within each area are depleted using the unit-of-production method based on proven plus probable reserves incorporating estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proven reserves. Costs of major development projects are excluded from the costs subject to depletion unless they are available for use.

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

carrying amount of property and equipment and are recognized within “operating expenses” in consolidated statement of comprehensive loss.

- (iii) Property and equipment – corporate and other:

Property and equipment – corporate and other is carried at cost and amortized over the estimated useful lives of the assets at various rates per annum calculated on a declining balance basis. Amortization is charged at half rates in the year of acquisition.

The Company uses the following rates:

Asset class	Rate
Furniture and equipment and leasehold improvements	20%
Computer Hardware	30%
Automotive	30%

Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of comprehensive loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated statement of comprehensive loss as incurred.

Financial assets and liabilities

All financial assets are initially measured at fair value. Financial assets are subsequently measured at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets, and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, except if the Company changes its business model for managing financial assets.

A financial asset is subsequently measured at amortized cost if it meets both of the following conditions:

- (i). The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- (ii). The contractual terms of the financial asset give rise on specified dates to cash

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet condition (ii) above that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets is subsequently measured at fair value through other comprehensive income (“FVOCI”). All other financial assets are subsequently measured at their fair values, with changes in fair value recognized in profit or loss (“FVTPL”).

Financial Assets and Liabilities	IFRS 9
Cash	Amortized cost
Trade and other receivables	Amortized cost
Short term investments	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Short-term loan	Amortized cost
Convertible debt	Amortized cost
Demand loan	Amortized cost
Credit facility	Amortized cost
Note payable	Amortized cost
Other liabilities	Amortized cost

Impairment

Financial assets:

At each reporting date, the Company assesses the expected credit losses (“ECL”) associated with its financial assets to determine the ECL allowances.

For accounts receivable, the Company applies the simplified approach required by IFRS 9, which requires the life time ECL allowances to be recognized at the initial recognition of the receivables. The ECL for financial assets are based on the assumptions about risk of default and expected credit losses. The Company uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Company’s past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Non-financial assets:

The carrying amounts of the Company’s non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. For other intangible assets that have indefinite lives or that are not yet available for use, an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property and equipment as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

The Company considers its Canadian assets as a CGU and its Texas assets held by Nexera Texas Inc. as a separate CGU and its assets held by Production Resources Inc. as a separate CGU.

The recoverable amount of an asset or a CGU is the greater of its value in use and its FVLCTS. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. FVLCTS is based on available market information, where applicable. In the absence of such information, FVLCTS is determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (Company of units) on a pro rata basis.

Share-based payments

The Company issues stock options to directors, officers and other consultants, which are deemed employees. The fair value of options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period, using a graded vesting model. The fair value is recognized as an expense within operations with a corresponding increase in contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

The fair value of warrants issued as part of the private placements is measured at the closing date of the private placement using the Black-Scholes option pricing model. The fair value is recognized as a deduction against share capital with a corresponding increase in contributed surplus.

If and when the stock options and/or warrants are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. Decommissioning obligations are measured at the present value of

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

management’s best estimate of expenditures required to settle the present obligation at the consolidated statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision to the extent the provision was established.

Revenue

Revenue from the sale of crude oil, natural gas, and natural gas liquids (“NGLs”) is measured based on the consideration specified in contracts with customers and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer, often pipelines or other transportation methods.

Applying the five step model required by IFRS 15, Revenue from Contracts with Customers, revenue is recognized as follows for these contracts:

Step in Model	Oil and Gas Sales
Identify the contract	The contractual arrangement executed with the customers, specifying the quantity and market price.
Identify distinct performance obligations	Single performance obligation to provide crude oil and gas to the customers.
Estimate transaction price	Transaction price is based on current commodity market prices.
Allocate the transaction price to performance obligations	Total revenue is allocated to the single performance obligation.
Recognize revenue as performance obligations are satisfied	Revenue to be recognized at a point in time once control passes to the customers (i.e when product is delivered).

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

Gathering fees charged to other entities for use of facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Gathering fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

From time to time, the Company performs wellsite operator and supervisory contract work and recognizes these revenues as they are earned and billed to the customer.

Finance income and expenses

Finance expense comprises interest expense on borrowings and accretion of the discount on provisions.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted as at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

Currency translation

Functional and presentation currency

The functional currency for each branch within the Company is the currency of the primary economic environment in which it operates. The functional currency for the United States branch and United States subsidiary (Production Resources Inc.) is the United States dollar. The functional currency for the Canadian branch is the Canadian dollar. These consolidated financial statements are presented in Canadian dollars. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

The results and financial position of the subsidiaries that have a functional currency different from the presentation currency are translated into Canadian dollars, the presentation currency, as follows:

- Assets and liabilities are translated at the closing exchange rate at the date of the consolidated statement of financial position;
- Income and expenses are translated at the average exchange rates during the period; and
- All resulting exchange differences are charged/credited to the currency translation adjustment in Other Comprehensive Loss.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities, within the United States branch, denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of comprehensive loss.

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

Flow-through shares

From time to time the Company will issue flow-through common shares to finance a portion of its exploration program. These shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company splits the flow-through shares into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. When expenses are renounced, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures. The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

Joint operations

Many of the Company’s oil and natural gas activities involve joint operations. A joint operation is a type of arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the joint operation. The consolidated financial statements include the Company’s share of these joint operations and a proportionate share of the relevant revenue and related costs.

4 New accounting pronouncements

IFRS 16 – Leases. The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption of IFRS 16, the Company recognized lease liabilities of \$91,245 in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2019, adjusted by commitments in relation to arrangements not containing leases, short-term and low-value leases, and discounted using the Company’s incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate used to determine the lease liabilities at adoption was approximately 6.0 percent. The difference in operating lease commitments disclosed as at December 31, 2019 and lease liabilities recognized on the balance sheet at January 1, 2019 is primarily due to non-lease components of contracts reassessed as service agreements. The associated right-of-use assets were measured at the amount equal to the lease liabilities on January 1, 2019, with no impact on retained earnings. See Note 6 and Note 18 for additional information regarding the Company’s leases.

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy effective January 1, 2019:

Contracts where the Company obtains the right to control the use of an identified asset in exchange for consideration are determined to contain a lease. At commencement, a right-of-use asset is initially measured at the initial amount of the lease liability, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the term of the lease. The corresponding lease liability is equal to the present value of the future lease payments discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company’s incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. Interest expense is recognized on the lease obligations using the effective interest rate method. These payments are applied against the lease liability.

The Company is required to make judgements and assumptions on incremental borrowing rates and lease terms. The carrying balance of the right-of-use assets, lease obligations, interest and depreciation expense may differ due to changes in market conditions and expected lease terms. Incremental borrowing rates are based on the Company’s borrowing rate at the commencement date of the lease, the security of the asset and market conditions. Lease terms are based on management’s assumptions of future market conditions and operational decisions.

IFRIC 23 – Uncertainty over Income Tax Treatments. The IASB issued International Financial Reporting Interpretations Committee (“IFRIC”) 23 Uncertainty over Income Tax Treatments in June 2017. IFRIC 23 is effective beginning January 1, 2019 and applies to the determination of the accounting tax position when there is uncertainty over income tax treatments under IAS 12 Income Taxes. Management has assessed the requirements of IFRIC 23 and concluded that the adoption of this interpretation does not have a material impact on the financial statements.

5 Determination of fair values

A number of the Company’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable,

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property and equipment and E&E assets:

The fair value of property and equipment and E&E assets is the estimated amount for which property and equipment and E&E assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion. The fair value of oil and natural gas assets (included in property and equipment) is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports.

Cash, trade and other receivables and accounts payable and accrued liabilities:

At September 30, 2020 and September 30, 2019, the fair value of these balances approximated their carrying value due to their short term to maturity.

Share-based payments, warrants and finder’s options:

The fair value of employee stock options, warrants and the finder’s options are measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

6 Property and equipment

	Oil and natural gas interests \$	Right of use assets \$	Corporate and other \$	Total \$
Cost, December 31st, 2019	4,715,727	101,784	191,765	5,009,276
Additions	137,897		115,845	253,742
Revision in decommissioning liability	555,822			555,822
Foreign currency translation	109,647		31,676	141,323
Cost September 30, 2020	5,519,093	101,784	339,286	5,960,163
Accumulated depletion, depreciation and impairment, beginning of year				
Depreciation and depletion for the year	(237,257)		(58,702)	(295,959)
Impairment				
Foreign currency translation				
Carrying value, September 30, 2020	5,281,836	101,784	280,584	5,664,204
	Oil and natural gas interests \$	Right of use assets \$	Corporate and other \$	Total \$
Cost, December 31st, 2018	11,106,429	91,245	486,351	11,684,025
Additions	23,438	66,661	35,865	125,964
Revision in decommissioning liability	146,914	-	-	146,914
Foreign currency translation	(440,466)	(2,773)	(32,683)	(475,922)
Cost December 31st, 2019	10,836,315	155,133	489,533	11,480,981
Accumulated depletion, depreciation and impairment, beginning of year	(5,012,111)	-	(263,025)	(5,275,136)
Depreciation and depletion for the year	(385,238)	(54,502)	(39,957)	(479,697)
Impairment	(755,019)	-	-	(755,019)
Foreign currency translation	31,780	1,153	5,214	38,147
Carrying value, December 31st, 2019	4,715,727	101,784	191,765	5,009,276

Impairment

In light of oil benchmark prices an impairment test was carried out on the Company’s CGU’s on December 31st, 2019. The impairment test carried out was based on reserve values using a post-tax discount rate of 11%, independent reserve evaluator’s forecast pricing and an inflation rate of 2%. The recoverable amount of the CGU was based on FVLCS. The fair value was estimated based on a discounted cashflows approach.

The test resulted in impairment losses for the Company for the period ended December 31st, 2019 of \$755,019 (December 31st, 2018 - \$105,869). The impairment test is sensitive to lower commodity prices, which have been under significant downward pressure recently.

Key inputs used in the determination of cash flows from oil and gas reserves include the following:

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

- (a) *Reserves.* Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- (b) *Petroleum and natural gas prices.* Forward price estimates for petroleum and natural gas are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.
- (c) *Discount rate.* The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate cost of capital for potential acquirers of the Company or the Company’s CGUs. Changes in the general economic environment could result in significant changes to this estimate.

The benchmark prices on which the December 31st, 2020 impairment indicators were assessed as follows:

	Crude oil (West Texas Intermediary) USD\$/bbl	Natural gas (AECO Spot) CDN\$/MMbtu
2020	60.00	2.05
2021	63.00	2.35
2022	66.00	2.60
2023	68.00	2.80
2024	70.00	2.95
2025	72.00	3.05

Prices escalating at 2.0 percent annually thereafter.

7 Exploration and evaluation assets

	E&E assets \$
Balance, December 31st, 2018	2,881,857
Additions	149,559
Revision in decommissioning liability	60,486
Foreign currency translation	(13,632)
Impairment	(3,078,270)
Balance, December 31st, 2019	-

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

Impairment

There was impairment of \$3,078,270 for the year ended December 31st, 2019 based on sufficient data existing from proved reserves in the independent reserve engineer’s report to indicate that the carrying amount of the exploration and evaluation assets are unlikely to be recovered in full and therefore, based on an impairment test performed the assets had a fair value of nil and were fully impaired.

The impairment test carried out was based on reserve values using a post-tax discount rate of 11%, independent reserve evaluator’s forecast pricing and an inflation rate of 2%. The recoverable amount of the CGU was based on FVLCS. The fair value was estimated based on a discounted cashflows approach.

The test resulted in impairment losses for the Company for the period ended December 31st, 2019 of \$3,078,270 (December 31st, 2018 - \$nil). The impairment test is sensitive to lower commodity prices, which have been under significant downward pressure recently.

Key inputs used in the determination of cash flows from oil and gas reserves include the following:

Reserves. Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

Petroleum and natural gas prices. Forward price estimates for petroleum and natural gas are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

Discount rate. The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate cost of capital for potential acquirers of the Company or the Company’s CGUs. Changes in the general economic environment could result in significant changes to this estimate.

The benchmark prices on which the December 31, 2019 impairment indicators were assessed as follows:

	Crude oil (West Texas Intermediary) USD\$/bbl	Natural gas (AECO Spot) CDN\$/MMbtu
2020	60.00	2.05
2021	63.00	2.35
2022	66.00	2.60
2023	68.00	2.80

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

2024	70.00	2.95
2025	72.00	3.05

Prices escalating at 2.0 percent annually thereafter.

During 2018, the Company entered into a farm-out agreement with HugoCellR Ltd. (“Hugo”). As part of the agreement, Hugo is required to advance the company a total of \$108,518 to acquire land leases and \$1,278,254 for development of the farmed land. Upon providing the development advance, Hugo will acquire 75% of the gross working interest with a net revenue interest of 60%. As of December 2019, Hugo has advanced, and the Company has spent, \$1,144,500, on the farmed out land. To date, the projects have not established production in economic quantities.

10 Decommissioning obligations

The Company’s decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company’s net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years.

The Company has estimated the net present value of the decommissioning obligations to be \$1,765,599 as at September 30, 2020 (December 31st, 2019 - \$1,184,900) based on an undiscounted total future liability of \$1,832,496 (December 31st, 2019 - \$1,758,421). These payments are expected to be made over the next 2 to 25 years. The obligations have been calculated using an inflation rate of .7% and a discount factor, being the risk-free rate related to the liability, of .012% - 1.40% (December 31st, 2019 – 2.00% and 1.86% - 2.18%, respectively).

	September 30, 2020	December 31st, 2019
	\$	\$
Balance, beginning of year	1,184,900	1,063,942
Additions	641,000	3,024
Revisions / changes in estimates	(325,610)	207,400
Accretion	(4,511)	17,241
Foreign currency translation	269,820	(106,707)
Balance, end of period	1,765,599	1,184,900

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

11 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 September 30, 2020, the Company incurred interest of nil (September 30, 2019 - \$34,178) 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.

12 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 September 30, 2020, the Company paid down the loan to \$75,000 (September 30, 2019 - \$105,500) and has accrued

Nexera Energy Inc. (formerly "Emerald Bay Energy Inc.")

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

interest of \$9,240 (September 30, 2019 - \$1,255). The Company may repay the Demand Loan in full at any time prior to demand without notice or penalty.

13 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 September 30, 2020, the total amount outstanding under the Short-term Loan is nil (September 30, 2019 - \$200,000), and during the quarters ended September 30, 2020 incurred interest of nil (September 30, 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:

	\$
Balance, December 31, 2017	225,000
Repayment of loan	(25,000)
Balance, June 30, 2018	200,000
Settled through issuance of common shares	(200,000)
Balance, December 31st, 2019	-

14 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.

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

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 June 30, 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 September 30, 2020, the total amount outstanding under the Loan is \$5,785,406, (December 31st, 2018 - \$5,785,406), and during the year ended December 31st, 2019, the Company incurred interest of \$659,144 (December 31st, 2019 - \$291,207). Total accrued interest is \$950,348.

- 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 September 30, 2020 the principal balance was \$4,205,504 (2019 - \$4,152,228) and unpaid interest is \$1,508,860. Interest of \$337,240 (September 30, 2019 - \$1,003,529) 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.

15 Share capital

a) Authorized

Unlimited number of common shares with voting rights

Unlimited number of preferred shares, issuable in series

Issued

	Number of Common Shares	Amount \$
Balance, December 31st, 2018	277,276,856	13,350,142
Private placement (i)	25,000,000	500,000
Value of warrants pursuant to private placement (i)		(388,928)
Share issue costs (i)		(15,479)
Shares for Debt (note 11 and 13(a))	18,493,178	369,864
Private placement (ii)	33,333,333	500,000
Value of warrants pursuant to private placement (ii)		(445,320)
Share issuance costs (ii)		(8,704)
Expiry of warrants (i and ii)		615,762
Share issuance costs for expired warrants (i and ii)		(8,054)
Share Consolidation (iii)	(330,496,476)	0
Balance, September 30, 2020	23,606,891	14,469,283

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

- (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”.

b) Warrants

Warrants to acquire common shares outstanding at September 30, 2020 are as follows:

	Number of warrants issued and exercisable	Amount \$	Weighted average exercise price \$	Weighted average Remaining life (years)
Balance, December 31st, 2019	58,333,333	834,248	0.05	1.0
Expiry of share purchase warrants	(25,000,000)	(388,928)	.05	1.0
Consolidation of warrants Note 15 (iii)	(7,504,220)	-	.75	.45
Balance, December 31, 2019	2,222,222	445,320	0.75	.45

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

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

	2019	2018
Risk-free rate	1.58%	1.79 %
Expected life	1 year	1 year
Expected volatility	337%	428%
Fair value per warrant	\$0.014	\$0.021

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

d) Stock options

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

The following table summarizes information about the Company’s stock options outstanding at September 30, 2020 and 2019:

	September 30, 2020		September 30, 2019	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Stock options, beginning of year	6,700,000	0.05	6,700,000	0.05
Expired	(6,700,000)	-	-	-
Stock options outstanding, end of year	-	-	6,700,000	0.05

The total stock options outstanding at September 30, 2020 are as follows:

Exercise price (\$)	Options outstanding	Weighted average remaining term (years)	Weighted average exercise price (\$)
-	nil	-	-

As at September 30, 2020, all stock options have expired.

During the year ended September 30, 2020 and 2019, the Company did not recognize any share-based payment expense.

Nexera Energy Inc. (formerly "Emerald Bay Energy Inc.")

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

e) Per share data

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

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

16 Income tax

The provision for income taxes varies from the amount that would be computed by applying the expected tax rate to income (loss) before income taxes. The principle reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

	December 31 st , 2019	December 31 st , 2018
	\$	\$
Loss before income taxes	(5,767,913)	(3,428,980)
Statutory income tax rate	25.25%	27.00%
Expected income tax provision	(1,456,398)	(925,825)
Investments	-	78,741
Non-deductible expenses	1,870	200
Change in tax rates	885,876	-
Other	192,266	(383,310)
Foreign exchange translation	-	(12,865)
Change in deferred tax asset not recognized	376,386	903,034
Income tax provision (recovery)	-	(340,025)

The Canadian statutory tax rate changed from 27% to 25.25% due to a change of legislation.

No deferred tax asset has been recognized in respect of the following losses and deductible temporary differences as it is not considered probable that sufficient future taxable profit will allow the deferred tax assets to be recovered.

	December 31 st , 2019	December 31 st , 2018
	\$	\$
Property and equipment	1,810,006	1,102,496
Flow-through share indemnity liability	76,449	89,745
Finance fees	8,031	16,707
Share issuance costs	1,802	2,821
Scientific research and experimental development	138,610	162,716
Investment tax credits	179,400	210,600
Non-capital losses	3,710,342	3,368,762
Total	5,924,640	4,953,847

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

As at December 31, 2019, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses is provided below.

The accumulated non-capital loss carry forwards expire as follows:

2024	\$ 290,130
2025	355,667
2026	173,928
2027	253,797
2028	612,406
2029	1,318,955
2030	1,371,927
2031	1,434,727
2032	1,600,022
2033	1,093,939
2034	979,293
2035	883,844
2036	1,302,516
2037	1,797,278
2038	1,603,123
2039	1,419,588
	<hr/>
	\$16,491,140

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

17 Related party transactions

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

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

During the year ended December 31, 1999, a promissory note was issued by an officer of the Company bearing interest at 3% per annum with no fixed maturity date, unless the officer’s employment is terminated or he is petitioned into bankruptcy wherein the note and accrued interest becomes immediately payable. During the year ended December 31, 2014, the Company revised the terms of the loan (the “Revised Promissory Note”), including fixed repayment terms and removing the term securing the note with 393,000 common shares of the Company. Historically the aggregate decline in the fair value of these common shares since the inception of the promissory note would offset the amount 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 June 30, 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 September 30, 2020, the officer had not yet paid the initial instalment, and the payment term has been extended to begin on December 31, 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 \$72,000 (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 September 30, 2020 was \$558,170 owing to officers of the Company (December 31st, 2019 - \$536,852).

Key management compensation

During the period ended September 30, 2020, \$487,200 (September 30, 2019 - \$377,247) in management compensation was incurred. Of which, \$394,136 was recognized to the consolidated statement of comprehensive loss (December 31st, 2019 – \$413,109) and \$93,064 was capitalized

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

to property and equipment in the consolidated statement of financial position (December 31st, 2019 - \$160,777).

18 Lease Liabilities

Effective January 1, 2019, the Company adopted IFRS 16 – Leases. The Company’s Calgary, Alberta office lease is with a related party through being a shareholder.

The following is a breakdown of the Company’s right-of-use assets and lease liability:

Right-of-use asset – office, storage, and vehicle leases		
Balance, January 1, 2019	\$	91,245
Additions		66,661
Amortization		(54,502)
FX translation		(1,620)
Balance, December 31st, 2019	\$	101,784
<hr/>		
Lease liability – office, storage and vehicle leases		
Balance, January 1, 2019	\$	91,245
Additions		66,661
Lease payments		(56,446)
Interest expense		5,095
FX translation		(3,011)
Balance, December 31st, 2020	\$	103,544
Less current portion of lease obligations		(40,578)
Non-current portion of lease obligations	\$	62,966

As at December 31st, 2020, the estimated undiscounted cash flows required to settle the Company’s lease liability was \$116,835 (January 1, 2019 - \$100,794). As at September 30, 2020, the Company calculated the present value of the lease payments utilizing an incremental borrowing rate ranging from 6% - 10% (January 1, 2019 – 6% - 10%).

The Company’s total undiscounted future lease payments of \$116,835 equate to future fixed lease obligations and exclude future variable office lease obligations as they do not meet the recognition criteria for a lease.

19 Commitments

- The Company raised capital through the issuance of flow-through shares in 2009, 2010 and 2011 which provided indemnity to the subscriber for additional taxes payable if the Company was

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

unable to, or failed to, renounce the qualifying expenditures as agreed. The Company was not able to spend \$824,338 of the flow-through funds raised. The Company is exposed to costs for the indemnification of the subscribers. The Company has estimated a potential liability on the amount of \$291,628 at September 30, 2020 (September 30, 2019 - \$290,567). The Company has also estimated a potential liability for penalties and taxes in the amounts of \$16,399, (September 30, 2019 - \$16,399) and is included in accounts payable and accrued liabilities. The accrued amount is subject to measurement uncertainty due to the tax filing positions of the subscribers, their tax rates and the amount of personal taxes that may be payable and the interpretation of the indemnity agreement, which will not be known until potentially affected subscribers are reassessed for their tax positions by the Canada Revenue Agency and these amounts become known to the Company.

- b) During the year ended December 31, 2015, the Company settled a contingent liability totaling \$145,512 with a third party who performed oil field services for the Company. The obligation is secured by a take in kind revenue arrangement from one of its gas wells to and in favor of the third party in case of default. The settlement was fair valued at \$107,912 using Level II valuation techniques with a discount rate of 25%. The Company is required to make 35 monthly payments of \$4,300 starting July 1, 2015 to May 1, 2018 and final installment of \$3,800 to be paid on June 1, 2018. As of September 30, 2020, the Company has not made payment in line with the agreed repayment schedule. Accordingly, the remaining balance of \$87,315 (2018 - \$87,773) is now considered as due on demand.
- c) A former supplier of the Company submitted a claim against Nexera for \$78,474 USD (\$98,446 CAD) of the amount the supplier is seeking for breach of written agreement for well pumping equipment and services on a well situated in Guadalupe County, Texas in September of 2014. The Company made a counter claim against the supplier asserting no liability based upon defective equipment having been leased by the Plaintiff. As at September 30, 2020 the lawsuit was still in pending status with no expected date of settlement.

20 Supplemental cash flow information

	September 30, 2020	December 31st, 2019
	\$	\$
The Company had the following non-cash transactions:		
Change in estimates in decommissioning obligations (note 10)	580,699	207,400

21 Financial risk management

The Board of Directors oversees management’s establishment and execution of the Company’s risk management framework. Management has implemented and monitors compliance with risk

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

management policies. The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company’s activities.

a) Fair values

The Company’s financial instruments consist of cash, short-term investments, trade and other receivables, accounts payable and accrued liabilities, the shareholder indemnity, the note payable, the convertible debt, the short-term loan, credit facility, other liabilities and the demand loan.

Financial instrument	Classification	Carrying value	Fair value
		\$	\$
Cash	Amortized cost	208,129	208,129
Short-term investments	Amortized cost	348,919	348,919
Trade and other receivables	Amortized cost	622,462	622,462
Accounts payable and accrued liabilities	Amortized cost	8,564,569	8,564,569
Shareholder indemnity	Amortized cost	291,628	291,628
Demand loan	Amortized cost	75,000	75,000
Short term loan	Amortized cost	533,560	533,560
Credit facility	Amortized cost	4,127,311	4,127,311
Note payable	Amortized cost	5,870,269	5,870,269
Other liabilities	Amortized cost	111,496	111,496
Lease liability	Amortized cost	107,323	107,323

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level I are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level II include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level III valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

At September 30, 2020, the Company’s cash and short-term investments have been subject to amortized cost valuation. The investment in the Partnership is level II. The current financial assets and liabilities approximate their fair value due to their current nature.

b) Credit risk:

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

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

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

At September 30, 2020, the Company’s trade and other receivables have been aged as follows:

	September 30, 2020	September 30, 2019
Days outstanding	\$	\$
0-30 days	<u>83,267</u>	80,075
31-60 days	3,235	-
61-90 days	38,353	-
Greater than 90 days	<u>497,607</u>	466,578
Total	<u><u>622,462</u></u>	<u>466,578</u>

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

Amounts outstanding for more than 90 days are considered past due. During the year ended September 30, 2020, the Company wrote off \$nil of trade and other receivables (September 30, 2019 - \$nil). As at December 31, 2019, a provision for doubtful accounts of \$187,341.

The Company’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity through operations, debt financing, or raising equity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation.

To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue.

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company’s loss or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing returns.

(i) Commodity price risk:

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand. All of the Company’s oil and gas production is sold at spot rates exposing the Company to the risk of price movements.

The Company had no commodity call options outstanding as at September 30, 2020 (2018 – none).

(ii) Currency risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and the United States and a portion of its expenses are incurred in United States dollars. The Company does not hedge its exposure to fluctuations in the exchange rate. Future changes in exchange rates could have a material effect on the Company’s business including its intended capital plans, its financial condition and results of operations.

Certain financial instruments of the Company are exposed to fluctuations in the United States dollar, including cash, trade and other receivables and accounts payable and accrued liabilities. As at September 30, 2020, an increase or decrease of 10% to the foreign exchange rate between the United States dollar and the Canadian dollar applied to the average level of United States denominated cash would have had approximately a \$857,850 (September 30, 2019 - \$18,207,324) impact on the Company’s comprehensive loss for the year.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at September 30, 2020, all of the Company’s debt, including the

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

loan, the convertible debt, the demand loan and the short-term loan, bears fixed interest rates and accordingly, is not subject to market interest rate fluctuations.

The Company has no interest rate swaps or financial contracts in place as at or during the year ended September 30, 2020 or 2018.

d) Capital management

The Company’s capital consists of shareholders’ deficiency, the credit facility, the note payable, the loan, the convertible debt and working capital. The Company will adjust its capital structure to manage its current and future debt, drilling programs and potential corporate acquisitions through the issuance of shares, sourcing additional debt financing and adjustments to capital spending. The Company’s objective for managing capital is to maximize long-term shareholder value by ensuring adequate capital to achieve the Company’s objectives. The Company is not subject to any external capital requirements.

Management reviews its capital management approach on an ongoing basis and believes its current approach is reasonable. There has been no change in management’s approach to capital management during the year.

22 Segmented information

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

Product segmentation is as follows:

Revenue	Oil	Natural Gas	NGL’s	Total
September 30, 2020 (\$)	696,414	37,470	4,673	738,557
September 30, 2019 (\$)	710,121	14,082	5,827	730,030

Geographical segmentation is as follows:

	September 30, 2020 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	49,649	688,908	738,557
Depletion, depreciation and impairment	9,212	286,748	295,960
Net loss	(493,568)	(551,442)	(1,045,010)
Property and equipment	-	5,664,204	5,664,204
Total liabilities	10,439,421	11,007,331	21,446,752

Nexera Energy Inc. (formerly “Emerald Bay Energy Inc.”)

Notes to the Consolidated financial statements

For the Nine Months Ended September, 2020 and 2019

	September 30, 2019 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	4,430	195,827	200,257
Depletion, depreciation and impairment	3,404	104,632	108,036
Net loss	328,180	101,485	429,665
Property and equipment	40,490	8,768,877	8,809,367
Total liabilities	9,903,120	9,043,943	18,947,063

23 Subsequent events

Subsequent events have been evaluated through November 30, 2020, the date the consolidated financial statements are available to be issued.