



# 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 September 30, 2021 and the audited annual Consolidated Financial Statements for the year ended December 31, 2020. 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 November 29, 2021.

## 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, 2020. 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**

Nexera 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 #3A, 4015 – 1 Street South East, Calgary, Alberta, Canada T2G 4X7.

At September 30, 2021, the Company had not yet achieved profitable operations, had an accumulated deficiency of \$36,553,301 since its inception and had a working capital deficiency of \$16,902,065 (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.

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Measures enacted to prevent the spread of the virus have resulted in global business disruption with significant economic repercussions. The current economic climate has caused uncertainty and extraordinary volatility in the oil and gas industry, particularly in the Western Canadian Sedimentary Basin.

These events have negatively impacted, and are expected to continue to negatively impact, the Company's business. The significant volatility in price for crude oil resulted in negative impacts to the Company's results. The uncertainty of the coronavirus pandemic continues to impact the energy industry.

## **BOE Presentation**

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

## **FORWARD-LOOKING STATEMENTS**

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

and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements.

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

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

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

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

## **OVERALL PERFORMANCE AND OUTLOOK**

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

### **HIGHLIGHTS OF 2021 THROUGH, AND SUBSEQUENT TO, THE END OF Q3:**

#### **On November 04, 2021 the Company announced plans to drill the second well at Stockdale**

Nexera Energy Inc., in partnership with Alliance Petroleum Interests of Dallas, Tex., will drill the second deep horizontal well at the company's Stockdale Horizon project in south Texas. Both Nexera and Alliance are pleased with results to date at the first Stockdale horizontal well (McGrew 1H), and the second well has now been permitted. The surface lease has been prepared for drilling, and it is anticipated that the well will be spudded on or about Nov. 12, 2021. Drilling the well to a total measured depth of approximately 6,400 feet will take several weeks.

These first two wells at Stockdale represent the company's commitment to a new transformative strategy of drilling high-impact horizontal wells as part of the company's exploration program in south Texas.

#### **On October 28, 2021 the Company provided the following update on the Huebinger and Stockdale wells:**

Nexera Energy Inc.'s Huebinger E1 well averaged 26 barrels of oil per day during its first six weeks of production. The company is very encouraged by these initial rates. With anticipated first-year production of 8,700 barrels, the well is expected to pay out in approximately seven months.

Additionally, the company has successfully drilled the second well on the Huebinger lease, Huebinger E2. The well has been completed in the Buda formation and will be on production this week. The Huebinger E1 and E2 wells were drilled on the company's Wooden Horse property and represent the latest vertical wells drilled at Wooden Horse. At approximately 2,600 feet deep, the wells can be drilled and put on production economically and quickly, and with the recent results at E1 and E2, the company has identified five new locations for future drilling.

At the company's Stockdale Horizon project, the McGrew 1H horizontal Austin Chalk well is now equipped and on production. Further information on initial production rates will be released as they become available..

#### **On October 19, 2021 the Company provided the following operational update:**

As the COVID-19 pandemic has continued through 2021 there have been unprecedented labour shortages across America, especially in the oil and gas sector of South Texas. These, third party, staffing shortages have caused numerous project delays for Nexera. With surging oil prices, industry service providers throughout South Texas have recently been staffing up their operations and Nexera is moving quickly to get projects progressing that were originally scheduled earlier this year. Despite these industry labour shortages, Nexera has been fortunate to maintain internal staffing levels to operate and complete projects that do not require third party services.

The company is pleased to report that the Huebinger E1 well, at the company's Wooden Horse property, has successfully been brought on line and initial production numbers will be released as they become available.

Earlier this year, the company drilled its first high impact horizontal Austin Chalk well (McGrew 1H) at the company's Stockdale Horizon property. The company is currently equipping the McGrew 1H well to begin production within the next week. The company has begun the process to lease additional lands on trend with the McGrew 1H well to expand the Stockdale Horizon project.

**On March 11, 2021 the Company announced the acquisition of the remaining 25% stake in Production Resources Inc.:**

Nexera Energy Inc. reported that the Corporation entered into an agreement (dated March 10, 2021) with Hillcrest Investments Ltd. ("**Hillcrest**") to acquire a 25% interest in Production Resources Inc. ("**PRI**"), a private south Texas company that Nexera currently owns a 75% interest in. Nexera is the current operator of PRI and its assets. After closing this transaction, Nexera will own 100% of PRI.

Pursuant to the transaction, Nexera will buy Hillcrest's 25% interest in PRI for USD\$400,000, in accordance with the following: (i) USD\$100,000 paid in 24 equal installments (monthly); plus (ii) the remaining USD\$300,000 (being CDN\$378,930) to be settled by way of the issuance of 3,789,300 Nexera common shares ("**Common Shares**") at \$0.10/Common Share. In addition, PRI's debt amounts owing to Hillcrest (totaling USD\$400,000) are cancelled/terminated as part of this transaction.

Hillcrest currently owns 1,500,000 Common Shares (2.6% of Nexera). After closing this transaction, Hillcrest will own 5,325,300 Common Shares (9.08% of Nexera). Hillcrest is controlled by Clarence Wagenaar who owns or controls an additional 2,500,000 Common Shares. Mr. Wagenaar, as a result of controlling an aggregate 7,825,300 Common Shares, will become an insider of Nexera (controlling approximately 13.3% of Nexera).

All of the Common Shares issued pursuant to the transaction are subject to a 4-month hold period. Completion of the transaction is subject to the final approval of the TSX Venture Exchange.

**On March 1, 2021 the Company announced the closing of a Private Placement:**

Nexera Energy Inc. reported that the Corporation has closed its previously announced private placement. Pursuant to this closing, an aggregate 13,333,330 units ("**Units**") were issued at a price of \$0.06 per Unit, for aggregate consideration of \$800,000. Each Unit consisted of one (1) Common Share of the Corporation and one (1) share purchase warrant (the "**Warrant**") (each full Warrant shall entitle the holder thereof to purchase one (1) additional Common Share of the Corporation for a period of 12 months from the issuance of the Units at a price of \$0.10) (the "**Offering**").

The Warrants are subject to an acceleration clause whereby if after four months and one day following the date the Warrants are issued, the closing price of the Common Shares of the Corporation on the principal market on which such shares trade is equal to or exceeds \$0.15 for 30 consecutive trading days (with the 30<sup>th</sup> such trading date hereafter referred to as the "**Eligible Acceleration Date**"), the Warrant expiry date shall accelerate to the date which is 30 calendar days following the date a press release is issued by the Corporation announcing the reduced warrant term, provided, no more than five business days following the Eligible Acceleration Date: (i) the press release is issued; and (ii) notices are sent to all warrant holders.

The net proceeds from this offering will be used as follows, in accordance with day-to-day operations: (i) Stockdale Horizon prospect mineral lease acquisitions; (ii) Wooden Horse project mineral lease acquisitions, renewals and drilling of the Patriot well(s); (iii) service equipment purchase(s); and (iv) working capital purposes.

All of the Common Shares and Warrants issued pursuant to the private placement are subject to a 4-month hold period. Completion of the private placement is subject to the final approval of the TSX Venture Exchange.

**On February 18, 2021 the Company announced plans to form well plugging subsidiary:**

Nexera Energy Inc. announced plans to form a new wholly owned subsidiary, Nexera Energy Services, Inc., to engage in plugging inactive oil wells. The Company has secured and owns all the required equipment, and has the expertise, including qualified employees, to engage in the plugging of inactive and orphaned wells throughout the State of Texas.

Nexera Energy Services will work with local landowners, government and regulatory agencies, and academic institutions and experts, to remediate the abandoned and orphaned well issue, one well at a time, starting with plugging three inactive wells on its own leases.

Oil well plugging throughout Texas costs between \$8,000 - \$140,000 per well, and Nexera believes there is significant margin to cover costs and profit from this new business unit. Nexera operates with a deep understanding of the geology of South Texas, and has existing employees and subcontractors active in the area, making this new business a natural fit.

**On January 22, 2021 the Company announced plans to drill second well on Huebinger lease:**

Nexera Energy Inc. announced that the Company completed drilling the Huebinger E1 well at the Company's Wooden Horse project in South Texas. The well has been cased and is being equipped to begin production testing. Huebinger E1 was drilled in partnership with Alliance Petroleum Interests ("Alliance"), of Dallas, Texas whereby Alliance pays 100% of the costs to drill and complete the well and Nexera retains 25% of its interest at no cost to the Company. Nexera and Alliance are now moving forward with drilling a second well at Wooden Horse.

Additionally, the Company reported that testing operations continue to progress at the recently drilled Stockdale Horizon 1H well. Currently, the Company is limited to daylight hours testing. During the testing intervals to date the well has consistently flowed back load/kill fluids, oil, and gas at rates in excess of 1 million cubic feet per day at approximately 1,500 psi. Further information will be provided as it becomes available

**On January 18, 2021 the Company drilling had commenced at Huebinger E1:**

Nexera Energy Inc. announced that the Company spudded the first well on the Huebinger lease at the Company's Wooden Horse project in South Texas. To minimize the potential of water inflow, Huebinger E1 will be the first well drilled at Wooden Horse using the Company's new drilling methodology to target the productive Austin Chalk formation and not drill into the Edwards formation. The Huebinger E1 location and potential second location were chosen as they are on trend and structurally up-dip from the Company's producing Kuhn wells. Huebinger E1 is being drilled in partnership with Alliance Petroleum Interests ("Alliance"), of Dallas, Texas whereby Alliance will pay 100% of the costs to drill and complete the well and Nexera will retain 25% of its interest at no cost to the Company. Partnerships for additional wells on the Huebinger lease are in discussions and the Company's percentage interest in future wells may vary.

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 September 30		Nine months ended September 30	
	2021	2020	2021	2020
<b>FINANCIAL</b>				
Gross revenue	366,353	241,853	963,773	738,556
Total assets	6,891,761	6,860,668	6,891,761	6,860,668
Cash flows used in operations	666,925	(74,388)	1,129,447	(177,109)
Net comprehensive income (loss)	(630,830)	(572,348)	(1,489,964)	(1,138,743)
Per share – basic and diluted	0.01	0.02	0.02	0.04
<b>OPERATIONS</b>				
<b>Production sales</b>				
Oil (BBLs/d)	44	45	43	48
Natural gas (MCF/d)	33	109	27	47
NGL (BBLs/d)	0	2	0	1
Total (BOE/d @ 6 MCF: 1 BBL)	49	50	48	51
<b>Average pricing</b>				
Natural gas (\$/MCF)	3.27	1.95	2.75	2.87
Oil and NGL's(\$/BBL)	80.85	53.35	75.35	53.29
Combined (\$/BOE)	77.78	40.46	73.83	47.75
<b>Expenses</b>				
Production expense & transportation (\$/BOE)	24.62	20.22	32.99	34.00
Royalty expense (\$/BOE)	23.91	20.30	20.34	12.28
<b>Net Back Combined (\$/BOE)</b>	<b>29.25</b>	<b>9.95</b>	<b>20.50</b>	<b>1.47</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. Due to Covid-19, the Company was not able to sell any production during the month of May, 2020.

Consolidated petroleum and natural gas revenue was \$366,353 for the three months ended Sept 30, 2021, from \$241,853 for the three months ended September 30, 2020.

Sales – Nine months ended	Average Daily Volumes		Average Prices	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Natural Gas (mcf)	27	47	2.75	2.87
Oil and NGLs (bbls)	43	49	75.45	53.29
<b>Barrels of Oil Equivalent (boe)</b>	<b>48</b>	<b>51</b>	<b>73.83</b>	<b>47.75</b>

During the period ended September 30, 2021, the Company continued to focus its resources toward its current and future exploration program in Guadalupe and Wilson Counties, Texas.

For the nine months ended September 30, 2021 natural gas production averaged 27 MCF/d compared to 47 MCF/d during the same period in 2020.

Natural gas prices were \$2.75/MCF during the nine months ended Sept 30, 2021 compared to \$2.87/MCF during the same period in 2020.

Oil and NGL prices significantly higher to \$73.83/bbl during the nine months ended Sept 30, 2021 from \$53.29/bbl for the same period in 2020.



For the nine months ended September 30, 2021, the average sales volume on a BOE/d basis were 48 BOE/d compared to 51 BOE/day for the nine months ended September 30, 2020.

The average sales price on a BOE basis was \$73.83/BOE during the nine months ended Sept 30, 2021, from \$47.75/BOE received in the nine months ended September 30, 2020

## GENERAL & ADMINISTRATIVE EXPENSES

After recoveries, general and administrative expenses (“G&A”) were \$201,817 and \$926,632, respectively, during the three and nine months ended September 30, 2021 from \$149,359 and \$507,868, respectively, for the same period during 2020. The Company’s G&A is reflective of the Company’s efforts to escalate new well drilling and optimizing existing wells in the current pricing environment for oil and gas, especially projects that had been delayed due to the Covid-19 pandemic.

	General & Administrative Expenses			
	Three months ended September 30		Nine months ended September 30	
	2021 (\$)	2020 (\$)	2021 (\$)	2020 (\$)
Net G&A expense	201,817	149,359	926,632	507,868

## DECOMMISSIONING LIABILITIES

Decommissioning liabilities are the present value of management’s estimate of future costs to be incurred to properly abandon and reclaim the properties held by the Company. Accretion expense is the increase in the decommissioning liability resulting from the passage of time. Decommissioning liabilities increased from \$1,538,858 as at December 31, 2020 to \$3,019,002 as at September 30, 2021, with the increase being the current higher inflation rates as well as the recently acquired LaVernia properties as well as new wells at the Stockdale and Huebinger leases.

## DEPLETION & DEPRECIATION

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

	Depletion and Depreciation			
	Three months ended Sept 30		Nine months ended Sept 30	
	2021 (\$)	2020 (\$)	2021 (\$)	2020 (\$)
Depletion and depreciation	6,367	280,195	234,622	295,960

During the three and nine months ended June 30, 2021, depletion and depreciation expenses were \$6,367 and 234,622 respectively, compared to \$280,295 and 295,960 during the same periods in 2020.

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

## CAPITAL EXPENDITURES

	Nine months ended September 30,	
	2021 (\$)	2020 (\$)
Exploration and evaluation expenditure	-	-
Capital expenditures	<b>106,174</b>	746,949

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

## QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly information that has been derived from the unaudited Consolidated Financial Statements of the Company. This summary should be read in conjunction with unaudited Consolidated Financial Statements of the Company as contained in the public record.

Quarterly Financial Information	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31
(\$000 except per share and unit values)	2021	2021	2021	2020	2020	2020	2020	2019
Petroleum and natural gas sales	366	332	267	215	239	182	308	366
Net loss	(631)	(282)	(577)	(3,315)	(572)	(333)	(738)	(3,856)
Net loss per share								
Basic and diluted	(0.01)	(0.01)	(0.01)	(0.07)	(0.02)	(0.01)	(0.03)	(0.02)
<b>Average daily sales</b>								
Natural gas (MCF/d)	33	33	29	45	20	-	20	17
Oil/NGL (BBLs/d)	44	43	42	51	47	52	47	40
Barrels of oil equivalent (BOE/d)	59	48	47	59	50	52	50	43
<b>Average sales prices</b>								
Natural Gas (\$/MCF)	3.27	9.33	5.75	3.55	1.95	-	4.58	5.80
Oil/NGL (\$/BBL)	80.85	78.65	66.46	44.79	53.35	39.87	69.19	73.26
Sales price of oil equivalent (\$/BOE)	77.78	76.43	63.24	44.13	48.46	39.87	66.42	75.80
Operating costs (\$/BOE)	24.62	19.56	48.37	9.93	20.22	39.06	46.71	25.13
Royalty Expense (\$/BOE)	23.91	26.99	17.58	9.86	20.30	10.54	17.15	3.41
Operating netback (\$/BOE)	29.25	29.89	(2.71)	24.35	7.94	(9.72)	2.56	47.26

### 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. The Company recently completed the acquisition of the La Vernia properties in Q1, 2020.

## **LIQUIDITY & CAPITAL RESOURCES**

In order to resolve its working capital deficiency of \$16,902,065 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.

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 2019, and to date in 2020.

### **EQUITY FINANCINGS**

- (i) On December 16, 2020, the Company completed a private placement (the "Private Placement"), issuing 21,704,600 units (the "Unit"). Each Unit was issued at \$0.05 for total proceeds of \$1,085,230 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 \$765,898 of the unit value to warrants (note 12(b)). Pursuant to the Private Placement, the Company incurred \$8,002 in cash share issue costs, which was allocated to the shares. 21,704,600 units were issued to directors, officers, and existing shareholders. 11,759,600 units were issued to settle previous obligations and 7,195,000 units were issued to in settlement of services rendered.
- (ii) On March 1, 2021, the Company completed a private placement (the "Private Placement"), issuing 13,333,330 units (the "Unit"). Each Unit was issued at \$0.06 for total proceeds of \$800,000 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 \$0.10 per share, exercisable for 1 year from the original issue date. The Company allocated \$411,612 of the unit value to warrants (note 12(b)). Pursuant to the Private Placement, the Company incurred \$7,595 in cash share issue costs, which was allocated to the shares.
- (iii) On May 12, 2021 the Company issued 3,789,300 shares at \$0.10 for total price of \$378,930 to purchase 25% share of Production Resources Inc. ("PRI") and settle the debt owed to the seller. The Company is to pay \$100,000 US dollars in installments to complete the deal. This amount is included in accounts payable.

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 for \$218,500 was issued by an officer of the Company to purchase shares 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 December 31, 2018, with the final payment of \$47,970 due on December 31, 2019. 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 December 31, 2020, the officer had not yet paid the initial instalment, and the payment term has been extended to begin on December 31, 2021 with final payment due December 31, 2025. 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.

During the year ended December 31, 2020, an officer was advanced a total of \$255,470. Funds repaid during the period amounted to \$140,000. The unsecured outstanding balance of \$115,471 is repayable on demand and accrues no interest. As of September 30, 2021 the balance is \$190,945.

- b) Additional related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:
- (i) Aggregate fees of \$Nil (December 31, 2020 - \$Nil) were charged by directors of the Company all of which was recorded in the consolidated statement of comprehensive loss.
  - (ii) Aggregate fees of \$Nil (December 31, 2020 - \$\$32,196) 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, 2021 was \$548,078 owing to officers of the Company (December 31, 2020 - \$516,400).

#### *Key management compensation*

During the period ended September 30, 2021, \$263,692 (December 31, 2020 - \$478,324) in management compensation was incurred. Of which, \$164,247 was recognized to the consolidated statement of comprehensive loss (December 31, 2020 – \$478,324) and \$99,445 was capitalized to property and equipment in the consolidated statement of financial position (December 31, 2020 - nil).

#### *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:

The Company underwent a 15-to-1 share consolidation in 2020 that has been retrospectively applied throughout these financial statements.

Issued

	Number of Common Shares	Amount \$
<b>Balance, December 31, 2019</b>	<b>23,606,892</b>	<b>14,469,283</b>
Private placement (i)	21,704,600	1,085,230
Value of warrants pursuant to private placement (iii)		(765,898)
Share issue costs (i)		(8,002)
Expiry of warrants (i)		834,248
<b>Balance, December 31, 2020</b>	<b>45,311,492</b>	<b>15,614,861</b>
Private placement (ii)	13,333,330	800,000
Value of warrants pursuant to private placement (iii)		(411,612)
Share issue costs (ii)		(7,595)
Expiry of warrants (i)		-
Purchase of PRI 25%	3,789,300	378,930
<b>Balance, September 30, 2021</b>	<b>62,434,122</b>	<b>16,374,584</b>

- (iv) On December 16, 2020, the Company completed a private placement (the "Private Placement"), issuing 21,704,600 units (the "Unit"). Each Unit was issued at \$0.05 for total proceeds of \$1,085,230 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 \$765,898 of the unit value to warrants (note 12(b)). Pursuant to the Private Placement, the Company incurred \$8,002 in cash share issue costs, which was allocated to the shares. 21,704,600 units were issued to directors, officers, and existing shareholders. 11,759,600 units were issued to settle previous obligations and 7,195,000 units were issued to in settlement of services rendered.
- (v) On March 1, 2021, the Company completed a private placement (the "Private Placement"), issuing 13,333,330 units (the "Unit"). Each Unit was issued at \$0.06 for total proceeds of \$800,000 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 \$0.10 per share, exercisable for 1 year from the original issue date. The Company allocated \$411,612 of the unit value to warrants (note 12(b)). Pursuant to the Private Placement, the Company incurred \$7,595 in cash share issue costs, which was allocated to the shares.
- (vi) On May 12, 2021 the Company issued 3,789,300 shares at \$0.10 for total price of \$378,930 to purchase 25% share of Production Resources Inc. ("PRI") and settle the debt owed to the seller. The Company is to pay \$100,000 US dollars in installments to complete the deal. This amount is included in accounts payable.



## Warrants

Warrants to acquire common shares outstanding at September 30, 2021 are as follows:

	Number of warrants issued and exercisable	Amount \$	Weighted average exercise price \$	Weighted average Remaining life (years)
<b>Balance, December 31, 2019</b>	<b>3,888,889</b>	<b>834,248</b>	<b>0.05</b>	<b>1.0</b>
Expiry of share purchase warrants	(1,666,667)	(388,928)	0.05	1.0
Expiry of share purchase warrants	(2,222,222)	(445,320)	0.05	1.0
Share purchase warrant issued (note 12(b))	21,704,600	765,898	0.05	1.0
<b>Balance, December 31, 2020</b>	<b>21,704,600</b>	<b>765,898</b>	<b>0.05</b>	<b>1.0</b>
Share purchase warrant issued (note 12(b))	13,333,330	411,612	0.10	1.0
<b>Balance, September 30, 2021</b>	<b>13,333,330</b>	<b>411,612</b>	<b>0.10</b>	<b>1.0</b>

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:

	2021	2020
Risk-free rate	0.25%	0.24
Expected life	1 year	1 year
Expected volatility	174%	174%
Fair value per warrant	\$0.03	\$0.03

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

## 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 December 31, 2020 and 2019:

	September 30, 2021		December 31, 2020	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
<b>Stock options, beginning of year</b>	-	-	-	-
Expired	-	-	-	-
<b>Stock options outstanding, end of year</b>	-	-	-	-

As at December 31, 2020, all stock options have expired.

During the period ended September 30, 2021 and December 31, 2020, the Company did not recognized any share-based payment expense.

#### 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.

#### **SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 29, 2021, the date the consolidated financial statements are available to be issued.