

# Nexera Energy Inc.

Consolidated Financial Statements

**For the Nine Months Ended September 30, 2022**

(expressed in Canadian dollars)

# Nexera Energy Inc.

## Consolidated Statements of Financial Position September 30, 2022 and December 31, 2021

	September 30, 2022	December 31, 2021
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	194,749	324,659
Short-term investments	328,733	337,624
Trade and other receivables (note 17(b))	3,310,068	689,427
Prepaid expenses and deposits	104,774	104,787
Officer loan receivable (note 13(a))	-	-
<b>Total current assets</b>	<b>3,938,324</b>	<b>1,456,497</b>
<b>Non-current assets</b>		
Property and equipment (note 6)	2,106,891	3,670,109
<b>Total assets</b>	<b>6,045,216</b>	<b>5,126,606</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	13,732,445	9,052,902
Shareholder indemnity (note 15(a))	291,628	291,628
Short-term loan (note 9)	-	-
Demand loan (note 8)	62,010	62,010
Credit facility (note 10(b))	3,945,972	4,003,444
Note payable (note 10(a))	5,785,406	5,785,406
Other liabilities (note 15(b))	103,496	103,496
Lease liability – short-term (note 14)	1,977	13,474
<b>Total current liabilities</b>	<b>23,922,934</b>	<b>19,312,360</b>
<b>Non-current liabilities</b>		
Lease liability (note 14)	28,491	25,757
Decommissioning obligations (note 7)	3,147,093	4,382,686
Royalty obligation (Note 6)	185,873	190,170
<b>Total liabilities</b>	<b>27,284,390</b>	<b>23,910,973</b>
<b>Shareholders' deficiency</b>		
Share capital (note 11(a))	17,536,639	17,184,374
Warrants (note 11(b))	-	352,265
Contributed surplus	2,441,269	2,441,269
Share purchase loan (note 13(a))	(247,970)	(247,970)
Deficiency	(41,725,001)	(39,306,718)
Non-controlling interest in PRI	-	-
Accumulated other comprehensive income	755,888	792,413
<b>Total shareholders' deficiency</b>	<b>(21,239,174)</b>	<b>(18,784,367)</b>
<b>Total liabilities and shareholders' deficiency</b>	<b>6,045,216</b>	<b>5,126,606</b>
<b>Reporting entity and going concern (note 1)</b>		

Approved on behalf of the Board of Directors

*Signed* "Shelby D. Beattie"

Director

*Signed* "Gibson C. Scott"

Director

# Nexera Energy Inc.

## Consolidated Statements of Comprehensive Loss For nine months ended September 30, 2022 and 2021

	For the three months ended		For the nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	\$	\$	\$	\$
<b>Revenue</b>				
Petroleum and natural gas revenue	434,513	366,253	1,488,435	963,773
Other revenue	(488,599)	25,317	(223,807)	73,579
Royalties	(96,309)	(104,033)	(356,665)	(259,694)
	<b>(150,395)</b>	<b>287,537</b>	<b>907,963</b>	<b>777,658</b>
<b>Operating expenses</b>				
Production and operating expenses	165,748	129,065	583,809	463,236
Depletion and depreciation (note 5)	159,814	6,367	292,223	234,622
General and administrative	467,070	201,817	1,101,894	926,632
Bad Debt	58	-	(14,867)	-
Foreign exchange (gain)	-	204,648	434	206,678
	<b>792,691</b>	<b>541,897</b>	<b>1,963,492</b>	<b>1,831,168</b>
<b>Results from operating activities</b>	<b>(943,085)</b>	<b>(254,360)</b>	<b>(1,055,530)</b>	<b>(1,053,510)</b>
<b>Finance expense</b>				
Interest expense	(244,316)	(184,204)	(802,489)	(549,537)
Interest on lease liability	(1,977)	(1,977)	(5,932)	(5,932)
Accretion of decommissioning obligations (note 7)	-	312	(9,362)	(17,795)
Net finance expense	<b>(246,293)</b>	<b>(185,869)</b>	<b>(817,783)</b>	<b>(573,264)</b>
<b>Net Income (loss) for the period</b>	<b>(1,189,378)</b>	<b>(440,229)</b>	<b>(1,873,313)</b>	<b>(1,626,774)</b>
<b>Other comprehensive loss</b>				
Foreign currency translation adjustment	233,453	(190,601)	(367,113)	136,810
<b>Total comprehensive Income (loss) for the period</b>	<b>(955,926)</b>	<b>(630,830)</b>	<b>(2,240,426)</b>	<b>(1,489,964)</b>
Non-controlling interest in PRI	-	-	-	-
Basic and fully diluted loss per share(note 13(e))	<b>(0.02)</b>	<b>(0.01)</b>	<b>(0.04)</b>	<b>(0.03)</b>
Weighted average number of common shares outstanding during the period	62,434,122	62,434,122	62,434,122	56,611,492

# Nexera Energy Inc.

## Consolidated Statements of Shareholders' Deficiency For the nine months ended September 30, 2022 and December 31, 2021

	Share capital	Warrants	Contributed surplus	Share purchase loan	Deficiency	Non-Controlling Interest	Accumulated other comprehensive loss	Total deficiency
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2020</b>	<b>15,614,861</b>	<b>765,898</b>	<b>2,441,269</b>	<b>(247,970)</b>	<b>(35,415,620)</b>	<b>(1,106,683)</b>	<b>755,888</b>	<b>(17,192,357)</b>
Reallocation expiry of warrants	765,898	(765,898)	-	-	-	-	-	-
Loss for the year	-	-	-	-	(3,891,098)	-	-	(3,891,098)
Private placement, net of issue costs	424,685	352,265	-	-	-	-	-	776,950
Purchase of PRI 25%	378,930	-	-	-	-	1,106,683	-	1,485,613
Foreign exchange translation to presentation currency	-	-	-	-	-	-	36,525	36,525
<b>Balance, December 31, 2021</b>	<b>17,184,374</b>	<b>352,265</b>	<b>2,441,269</b>	<b>(247,970)</b>	<b>(39,306,718)</b>	<b>-</b>	<b>792,413</b>	<b>(18,784,367)</b>
Reallocation expiry of warrants	352,265	(352,265)	-	-	-	-	-	-
Loss for the year	-	-	-	-	(2,221,890)	-	-	(2,221,890)
Private placement, net of issue costs	-	-	-	-	-	-	-	-
Foreign exchange translation to presentation currency	-	-	-	-	(196,393)	-	(36,525)	(209,918)
<b>Balance, September 30, 2022</b>	<b>17,536,639</b>	<b>-</b>	<b>2,441,269</b>	<b>(247,970)</b>	<b>(41,725,001)</b>	<b>-</b>	<b>755,888</b>	<b>(21,239,175)</b>

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

# Nexera Energy Inc.

## Consolidated Statements of Cash Flows For the nine months September 30, 2022 and 2021

	September 30, 2022	September 30, 2021
	\$	\$
<b>Cash (used in) provided by:</b>		
<b>Operating activities</b>		
Net loss for the year	(2,240,426)	(1,489,964)
Adjustments for:		
Bad debt expense (note 17(b))	(14,926)	-
Depletion and depreciation (note 6)	292,223	234,622
Impairment of property and equipment (note 6)	-	-
Accretion of decommissioning obligation (note 7)	9,362	1,462,350
Loss on business acquisition (note 5)	-	-
Interest on lease liability (note 14)	5,932	(5,932)
Unrealized foreign exchange loss	367,113	136,810
	<u>(2,345,536)</u>	<u>337,886</u>
Change in trade and other receivables	(2,620,641)	(543,300)
Change in prepaid expenses and deposits	(14)	(4)
Change in accounts payable and accrued liabilities	4,679,543	109,853
Change in other liabilities	-	(483,840)
	<u>(286,621)</u>	<u>(579,405)</u>
<b>Investing activities</b>		
Property and equipment expenditures (note 6)	170,941	(106,174)
Proceeds on sale of property and equipment (note 6)	-	-
	<u>170,941</u>	<u>(106,174)</u>
<b>Financing activities</b>		
Proceeds from issuance of common shares, net of issue costs (note 11 (b))	-	1,171,355
Lease payments (note 14)	(14,230)	(26,153)
Repayment of other liabilities	-	-
Repayment of demand loan (note 8)	-	(25,000)
Funds (advanced) repaid on officer loan receivable (note 13(a))	-	9,265
Repayment of note payable	-	-
	<u>(14,230)</u>	<u>1,129,447</u>
<b>Change in cash</b>	<b>(129,910)</b>	<b>443,868</b>
<b>Cash, beginning of year</b>	<b>324,659</b>	<b>352,309</b>
<b>Cash, end of year</b>	<b>194,749</b>	<b>796,177</b>

### Supplemental cash flow information (note 16)

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## 1 Reporting entity and 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, 2022, the Company had not yet achieved profitable operations, had an accumulated deficiency of \$41,725,001 since its inception and had a working capital deficiency of \$19,984,610 (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 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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## 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 29, 2022.

### 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 wholly-owned United States subsidiaries Emerald Bay Texas Inc., Production Resources, Inc. (“PRI”) and Cotulla Vacuum Services, Ltd. 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 subsidiaries.

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

# Nexera Energy Inc.

Notes to the Consolidated financial statements

**For the nine months ended September 30, 2022 and 2021**

---

e) Use of estimates and judgements:

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.

*Indicators of Impairment*

At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that the carrying values of property and equipment are impaired. Such circumstances include incidents of deterioration of commodity prices, changes in the regulatory environment, or a reduction on estimates of proved and probable reserves. When management judges that circumstances indicate impairment, property and equipment are tested by comparing the carrying values to their recoverable amounts. These calculations require the use of estimates and assumptions that are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates, as well as future development and operating costs.

*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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

**For the nine months ended September 30, 2022 and 2021**

---

## *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.

## 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.

### *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.

### *Shareholder indemnity*

The accounting policy for the shareholder indemnity liability is described in note 14(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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## *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.

#### **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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

(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 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:

<b>Asset class</b>	<b>Rate</b>
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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## 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 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").

<b>Financial Assets and Liabilities</b>	<b>IFRS 9</b>
Cash	Amortized cost
Trade and other receivables	Amortized cost
Short term investments	Amortized cost
Officer loan receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Short-term loan	Amortized cost
Royalty obligation	Amortized cost
Demand loan	Amortized cost
Credit facility	Amortized cost
Note payable	Amortized cost
Other liabilities	Amortized cost

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## **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.

The Company considers its Canadian assets as a CGU, its Texas assets held by Emerald Bay 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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

**For the nine months ended September 30, 2022 and 2021**

---

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 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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

**For the nine months ended September 30, 2022 and 2021**

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.

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 the services are provided and billed to the customer.

## **Finance income and expenses**

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

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## **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 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 the Company's United States subsidiaries 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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

**For the nine months ended September 30, 2022 and 2021**

---

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.

### **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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## Leases

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company allocates the consideration in the contract to each lease component based on their relative stand-alone prices.

Leases are recognized as a Right-of Use (“ROU”) asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. These payments are discounted using the Company’s incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments are allocated between the liability and finance costs. The finance cost is charged to net earnings over the lease term. The lease liability is measured at amortized cost using the effective interest method. It is re-measured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

When the lease liability is re-measured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in the Statements of Net and Comprehensive Income (Loss) if the carrying amount of the ROU asset has been reduced to zero.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability, any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located less any lease payments made at or before the commencement date. The ROU asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain re-measurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the Statements of Net and Comprehensive Income (Loss) on a straight-line basis over the lease term. A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will re-measure the lease liability using the Company’s incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in net income (loss) that reflects the proportionate decrease in scope.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

**For the nine months ended September 30, 2022 and 2021**

---

ROU assets are assessed for impairment on initial recognition and subsequently on an annual basis, at a minimum. ROU assets subject to leases that have become onerous in nature are adjusted by the amount of any provision for onerous leases.

During the year ended December 31, 2021, the Company expensed \$36,000 (2020 - \$nil) for short-term leases including operating costs.

## **Future accounting standards and pronouncements**

### Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

These amendments are effective for reporting period beginning on or after January 1, 2022.

### Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

## **4 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, 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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

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

At September 30, 2022 and December 31, 2021, 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).

## 5 Business combinations

The Company completed the following business combinations during fiscal 2021:

### **Cotulla Vacuum Services Ltd. ("Cotulla")**

The Company acquired the shares of Cotulla from a non arm's-length party in February 2021. The fair value of the assets acquired and liabilities assumed on the date of acquisition is as follows:

*Assets acquired:*

Cash	\$	14,582
Accounts receivable		27,865
Property and equipment		<u>225,503</u>
Total assets acquired:	\$	267,950
Liabilities assumed:	\$	<u>-</u>
Net assets acquired :	\$	267,950

*Consideration paid:* \$ -

The value of the net assets acquired has been recognized as a bargain purchase gain in these consolidated financial statements. The Company will share in 50% of the profits associated with the operation of the assets on a go-forward basis.

### **Petroleum Resources Inc. ("PRI")**

Effective January 1, 2021, the Company acquired the remaining 25% interest, representing the non-controlling interest, in PRI for gross consideration of \$100,000 USD (\$120,960 CAD) in cash and \$300,000 USD (\$378,930 CAD) settled through the issuance of 3,789,300 common shares at \$0.10 CAD per share. As part of the transaction, the non-controlling interest holder forgave \$400,000 USD of debt outstanding from PRI (note 9).

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

	CAD
Fair value of 25% interest	\$ (622,843)
Consideration paid:	<u>499,890</u>
Excess consideration:	<u>\$ 1,122,733</u>

The excess consideration paid has been recognized as a loss on acquisition in these consolidated financial statements.

As at September 30, 2022, the cash consideration remains unpaid and is included in accounts payable and accrued liabilities.

## 6 Property and equipment

	Oil and natural gas interests \$	Right of use assets \$	Corporate and other \$	Total \$
<b>Carrying value, December 31, 2021</b>	<b>14,114,582</b>	<b>184,259</b>	<b>847,268</b>	<b>15,920,606</b>
Additions	(1,956)	30,197	(108,096)	(79,855)
Revisions in decommissioning liability	(980,315)	-	-	(980,315)
Foreign currency translation	(194,196)	7,718	(31,608)	(218,086)
<b>Cost, September 30, 2022</b>	<b>12,938,115</b>	<b>222,174</b>	<b>707,564</b>	<b>13,867,853</b>
Accumulated depletion, depreciation and impairment, beginning of year	(10,917,678)	(85,572)	(472,750)	(11,476,000)
Depreciation and depletion for the year	(193,868)	-	(28,969)	(222,837)
Impairment	-	-	-	-
Foreign currency translation	(53,164)	-	(8,961)	(62,125)
<b>Carrying value, September 30, 2022</b>	<b>1,773,405</b>	<b>136,602</b>	<b>196,884</b>	<b>2,106,891</b>

  

	Oil and natural gas interests \$	Right of use assets \$	Corporate and other \$	Total \$
<b>Cost, December 31, 2020</b>	<b>11,291,517</b>	<b>154,087</b>	<b>606,922</b>	<b>12,052,526</b>
Additions	53,700	23,799	236,642	314,141
Revisions in decommissioning liability	2,828,595	-	-	2,828,595
Foreign currency translation	(59,230)	6,373	3,704	(49,153)
<b>Cost, December 31, 2021</b>	<b>14,114,582</b>	<b>184,259</b>	<b>847,268</b>	<b>15,146,109</b>
Accumulated depletion, depreciation and impairment, beginning of year	(9,283,937)	(97,789)	(361,197)	(9,742,923)
Depreciation and depletion for the year	(352,932)	-	(97,023)	(449,955)
Impairment	(1,324,593)	-	-	(1,324,593)
Foreign currency translation	43,784	12,217	(14,530)	41,471
<b>Carrying value, December 31, 2021</b>	<b>3,196,904</b>	<b>99,407</b>	<b>148,295</b>	<b>3,670,109</b>

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## Asset Acquisition and Disposal

In February 2020, the Company closed an acquisition with an arms-length party of various properties and working interests in the La Vernia fields for cash consideration of USD\$50,000 (CAD\$66,500) and a gross overriding royalty that became effective January 1, 2021. The gross overriding royalty is initially valued at an estimate of its fair value of USD\$300,000 (CAD\$399,000) and is subsequently measured in accordance with IFRS 9 at amortized cost using the effective interest rate method at each period end based on estimated projected royalties as determined by utilizing the independent reserve engineer report.

The acquisition has been accounted for an asset acquisition as the La Vernia properties are not considered to be a business when applying the guidance within IFRS 3 Business Combinations. Consideration paid is as follows:

Petroleum properties	\$ 1,127,840
Asset retirement obligations	<u>(662,340)</u>
Total net assets	465,500
Cash consideration paid	66,500
Royalty obligation assumed	<u>399,000</u>

In April 2020, the Company disposed of 50% of its working interest in the La Vernia fields for cash consideration of CAD\$257,724 (USD\$186,000) to a family member of a director of the Company. The disposal has been accounted for as follows:

Petroleum properties disposed	\$ 585,120
Asset retirement obligations disposed	(343,620)
Royalty obligation disposed	<u>(185,001)</u>
Total net assets disposed	56,499
Cash consideration received	<u>257,724</u>
Gain on disposal of petroleum properties	201,225

As at December 31, 2021, the royalty liability was determined to have a value of CAD \$190,170 (USD - \$150,000) (2020 - CAD\$190,980; USD\$150,000).

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

## Impairment

In light of volatility in oil benchmark prices during the year an impairment test was carried out on the Company's CGU's on December 31, 2021 and December 31, 2020. The impairment test carried out was based on reserve values using a post-tax discount rate of 11.50%, 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 31, 2021 of \$1,324,593 (December 31, 2020 - \$3,157,891). The impairment test is sensitive to commodity prices, which have been subject to significant volatility recently.

*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.

- (a) *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. If prices decreased by 5% then impairment would increase by \$216,000.
- (b) *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, 2021 recoverable amount was determined was as follows:

	Crude oil (West Texas Intermediary) USD\$/bbl
2022	72.83
2023	68.78
2024	66.76
2025	68.09
2026	69.45
2027	70.84

*Prices escalating at 2.0 percent annually thereafter.*

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

The benchmark prices on which the December 31, 2020 recoverable amount was determined was as follows:

	Crude oil (West Texas Intermediary) USD\$/bbl
2021	37.00
2022	48.00
2023	48.96
2024	49.94
2025	50.94
2026	51.96

*Prices escalating at 2.0 percent annually thereafter.*

## 7 Decommissioning obligations

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

The Company has estimated the net present value of the decommissioning obligations to be \$3,147,092 as at September 30, 2022 (December 31, 2021 - \$4,860,745). These payments are expected to be made over the next 2 to 50 years. The obligations have been calculated using an inflation rate of 2.00% and a discount factor, being the risk-free rate related to the liability, of 2.8% - 3.14% (December 31, 202 - 2.00% and 0.39% - 1.94%, respectively).

	September 30, 2022	December 31, 2021
	\$	\$
<b>Balance, beginning of year</b>	<b>4,382,686</b>	<b>1,538,858</b>
Revisions / changes in estimates	(980,647)	2,828,595
Accretion	9,362	17,795
Foreign currency translation	(204,509)	(2,562)
<b>Balance, end of year</b>	<b>3,206,892</b>	<b>4,382,686</b>

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## 8 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. This balance was paid down to \$75,000 in 2019. The Demand Loan is due on the demand of the Lender and bears interest of 8.00% per annum, compounded monthly. The balance outstanding at September 30, 2022 is \$62,010 (December 31, 2021 - \$62,010) and has accrued interest of \$4,770 (December 31, 2021 - \$6,459) included in accounts payable and accrued liabilities. The Company may repay the Demand Loan in full at any time prior to demand without notice or penalty.

## 9 Short-term loan

The loan is due to a significant shareholder in the Company. Under the terms of a loan agreement the maturity date was September 15, 2015 and it is now due on demand. This loan is unsecured and non-interest bearing. At December 31, 2021, \$nil was outstanding (December 31, 2020 - \$509,520). The loan was forgiven during the year ended December 31, 2021 as part of the acquisition of the remaining 25% non-controlling interest in Production Resources Inc. (note 3).

## 10 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 January 1, 2018, at which point the Note payable will bear interest at a rate equal to Prime Rate plus 1.5% per annum. The Note payable is payable upon demand by the Lender, and is secured over all of the assets of the Company.

At September 30, 2022 the total amount outstanding under the Loan is \$5,785,406, (December 31, 2021 - \$5,785,406), and during the period ended December 31, 2021, the Company incurred interest of \$319,120 (December 31, 2021 - \$273,568). Total accrued interest included in accounts payable and accrued liabilities is \$1,610,322 (December 31, 2021 - \$1,291,202).

b) 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, 2022 the principal balance was \$4,003,444 (December 31, 2021 - \$4,003,444) and unpaid interest included in accounts payable and accrued liabilities is \$2,308,882 (December 31, 2021 - \$1,911,816). Interest of \$397,066 (December 31, 2021 - \$461,808) was expensed in the consolidated statements 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

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

Company was not in compliance with repayment terms and as such, this credit facility has been classified as a current liability.

## 11 Share capital

### a) Authorized

Unlimited number of common shares with voting rights

Unlimited number of preferred shares, issuable in series

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

### b) Issued

	Number of Common Shares	Amount \$
<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 (ii)	-	(352,265)
Share issue costs (ii)	-	(23,050)
Expiry of warrants (i)	-	765,898
Shares issued for acquisition (iii)	3,789,300	378,930
<b>Balance, December 31, 2021</b>	<b>62,434,122</b>	<b>17,184,374</b>
Expiry of warrants (i)	-	352,265
<b>Balance, September 30, 2022</b>	<b>62,434,122</b>	<b>17,536,639</b>

(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 10(c)). 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 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 \$352,265 of the unit value to warrants (note 10(c)). Pursuant to the

# Nexera Energy Inc.

## Notes to the Consolidated financial statements

### For the nine months ended September 30, 2022 and 2021

Private Placement, the Company incurred \$23,050 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 (note 3).

#### c) Warrants

Warrants to acquire common shares outstanding at September 20, 2022 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 10(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 10(b))	13,333,330	352,265	0.10	0.16
Share purchase warrant issued	(21,704,600)	(765,898)	0.05	1.0
<b>Balance, December 31, 2021</b>	<b>13,333,330</b>	<b>352,265</b>	<b>0.10</b>	<b>0.16</b>
Expiry of share purchase warrants	(13,333,330)	(352,265)	0.10	1.0
<b>Balance, September 30, 2022</b>	<b>0</b>	<b>0</b>	<b>0.10</b>	<b>0.16</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	192%	174%
Fair value per warrant	\$0.026	\$0.03

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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

There were no options outstanding at September 30, 2022.

During the period ended September 30, 2022 and September 30, 2021, the Company did not recognize any share-based payment expense.

e) Per share data

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

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.

## 12 Income Taxes

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, 2021	December 31, 2020
	\$	\$
Loss before income taxes	<b>(3,891,098)</b>	(5,093,134)
Statutory income tax rate	<b>22.00%</b>	21.66%
Expected income tax provision	<b>(856,042)</b>	(1,103,173)
Non-deductible loss on business acquisition	<b>188,052</b>	-
Change in tax rates	-	1,044
Other	-	203,049
Change in deferred tax asset not recognized	<b>677,990</b>	899,080
Income tax provision (recovery)	-	-

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, 2021	December 31, 2020
	\$	\$
Property and equipment	<b>2,425,673</b>	<b>2,208,439</b>
Flow-through share indemnity liability	<b>67,074</b>	<b>67,074</b>
Finance fees	<b>3,817</b>	<b>3,817</b>
Share issuance costs	<b>6,273</b>	<b>1,202</b>
Scientific research and experimental development	<b>138,610</b>	<b>138,610</b>
Investment tax credits	<b>179,400</b>	<b>179,400</b>
Non-capital losses	<b>5,283,603</b>	<b>4,827,918</b>
Total	<b>8,104,450</b>	<b>7,426,460</b>

# Nexera Energy Inc.

Notes to the Consolidated financial statements

**For the nine months ended September 30, 2022 and 2021**

---

As at September 30, 2022, the Company has estimated non-capital losses for Canadian income tax purposes of approximately \$23,000,000 that will expire between 2024 and 2041 and may be carried forward to reduce taxable income derived in future years.

## **13 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 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 officer has not yet paid the initial instalment due on December 31, 2021. 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. During the year ended December 31, 2020, the officer repaid \$140,000 of this amount. The remaining balance of \$115,471 was repaid during the year ended December 31, 2021. At December 31, 2021, the balance owing from the officer in respect of this loan was \$nil (December 31, 2020 - \$115,471).

- 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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

## For the nine months ended September 30, 2022 and 2021

- (ii) Rent expense of \$27,000 (December 31, 2021 - \$36,000) was charged by corporations, which are owned and controlled by a party who is also a significant shareholder of the Company, and were all recorded as general and administrative costs.
- (iii) Included in accounts payable at September 30, 2022 was \$656,010 owing to officers and directors of the Company and to corporations which are owned and controlled by a party who is a significant shareholder of the Company (December 31, 2021 - \$1,674,087).

### *Key management compensation*

During the period ended September 30, 2022, \$204,424 (September 30, 2021 - \$294,218) in management compensation was incurred.

## 14 Lease Liabilities

Effective January 1, 2019, the Company adopted IFRS 16 – Leases.

The following is a breakdown of the Company's lease liability:

<b>Lease liability – office, storage and vehicle leases</b>		
Balance, December 31, 2019	\$	103,544
Lease payments		(48,571)
Interest expense		5,803
FX translation		4,507
<b>Balance, December 31, 2020</b>	<b>\$</b>	<b>65,283</b>
Lease payments		(33,962)
Interest expense		7,910
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>39,231</b>
Less current portion of lease obligations		(13,474)
Non-current portion of lease obligations	\$	25,757

As at December 31, 2021, the estimated undiscounted cash flows required to settle the Company's lease liability was \$39,231 (December 31, 2021- \$39,231). As at December 31, 2021, the Company calculated the present value of the lease payments utilizing an incremental borrowing rate ranging from 6% - 10% (December 31, 2020 – 6% - 10%).

The Company's total undiscounted future lease payments equate to future fixed lease obligations and exclude future variable office lease obligations as they do not meet the recognition criteria for a lease.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## 15 Commitments and contingencies

- a) The Company raised capital through the issuance of flow-through shares in 2009, 2010 and 2011 which provided indemnity to the subscriber for additional taxes payable if the Company was unable to, or failed to, renounce the qualifying expenditures as agreed. The Company was not able to spend \$824,338 of the flow-through funds raised. The Company is exposed to costs for the indemnification of the subscribers. The Company has estimated a potential liability in the amount of \$291,628 at December 31, 2021 (December 31, 2020 - \$291,628). The Company has also estimated a potential liability for penalties and taxes in the amounts of \$16,399, (December 31, 2020 - \$16,399) that 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 was 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 December 31, 2021 and 2020, the Company has not made payment in line with the agreed repayment schedule. Accordingly, the remaining balance of \$103,496 (2020 - \$111,496) is now considered as due on demand and is included in other liabilities. Given the Company's failure to settle the obligation pursuant to the agreed upon terms with the third party, additional interest and collection charges may be awarded by the courts if pursued.
- c) A former supplier to the Company submitted a claim against Nexera for \$78,474 USD (\$98,446 CAD) of the amount the supplier is seeking for breach of a written agreement for well pumping equipment and services on a well situated in Guadalupe County, Texas in September of 2014. During 2017, the Company made a counter claim against the supplier asserting no liability based upon defective equipment having been leased by the Plaintiff. As at December 31, 2021 and 2020, no provision has been recognized in accordance with IAS 37 as there is no probable outflow of resources and no reliable estimate of an obligation can be made.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

## 16 Supplemental cash flow information

	September 30, 2022	December 31, 2021
	\$	\$
The Company had the following non-cash transactions:		
Change in estimates in decommissioning obligations (note 7)	1,235,593	2,811,411

## 17 Financial risk management

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

### a) Fair values

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

Financial instrument	Classification	Carrying value	Fair value
		\$	\$
Cash	Amortized cost	194,749	194,749
Short-term investments	Amortized cost	328,733	328,733
Trade and other receivables	Amortized cost	1,033,872	1,033,872
Accounts payable and accrued liabilities	Amortized cost	12,759,817	12,759,817
Shareholder indemnity	Amortized cost	291,628	291,628
Demand loan	Amortized cost	62,010	62,010
Credit facility	Amortized cost	3,945,972	3,945,972
Note payable	Amortized cost	5,785,406	5,785,406
Other liabilities	Amortized cost	103,496	103,496
Lease liability	Amortized cost	30,468	30,468
Royalty obligation	Amortized cost	185,873	185,873

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.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

At December 31, 2021 and 2020, 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.

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 December 31, 2021, the Company's trade and other receivables have been aged as follows:

	September 30, 2022	December 31, 2021
Days outstanding	\$	\$
0-30 days	244,555	140,153
31-60 days	-	119,726
61-90 days	63,342	37,046
Greater than 90 days	725,975	392,502
Total	1,033,872	689,427

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

Amounts outstanding for more than 90 days are considered past due. During the year ended December 31, 2021, the Company recognized an impairment charge of \$16,297 of trade and other receivables (December 31, 2020 – \$12,989). As at December 31, 2021, a provision for doubtful accounts of \$203,779 (December 31, 2020 - \$188,310) has been recorded against the greater than 90-day receivables.

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

## c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. At September 30, 2022, the Company's maximum exposure to liquidity risk is the total current liabilities of \$22,953,040 (December 31, 2021 - \$19,119,116) (Note 1).

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.

## d) 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.

### (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

# Nexera Energy Inc.

Notes to the Consolidated financial statements

## For the nine months ended September 30, 2022 and 2021

accrued liabilities. As at September 30, 2022, 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 \$1,153,120 (December 31, 2021 - \$30,000) impact on the Company's comprehensive loss for the period.

(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, 2022, the majority of the Company's debt, including the short-term loan, the demand loan and the note payable, bears fixed interest rates and accordingly, are not subject to market interest rate fluctuations. The credit facility is at a floating interest rate and is therefore subject to market interest rate fluctuations.

The Company has no interest rate swaps or financial contracts in place as at or during the period ended September 30, 2022 or September 30, 2021.

d) Capital management

The Company's capital consists of shareholders' deficiency, the credit facility, the note payable, the demand loan 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 period.

## 18 Segmented information

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

Product segmentation is as follows:

Revenue	Oil	Natural Gas	NGL's	Total
September 30, 2022 (\$)	1,364,224	100,850	8,041	1,473,115
December 31, 2021(\$)	1,220,518	124,426	8,589	1,3453,200

# Nexera Energy Inc.

Notes to the Consolidated financial statements

For the nine months ended September 30, 2022 and 2021

---

Geographical segmentation is as follows:

	September 30, 2022 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	158,775	1,329,660	1,488,435
Depletion, depreciation and impairment	0	292,223	292,223
Net loss	(603,771)	(1,636,655)	(2,240,426)
Property and equipment	(122,881)	3,533,341	3,410,460
Total liabilities	11,201,342	15,110,420	26,311,762

	December 31, 2021 (\$)		
	Canada	United States	Total
Petroleum and natural gas sales	144,048	1,209,152	1,353,200
Depletion, depreciation and impairment	13,425	436,530	449,955
Net loss	(863,129)	(3,477,924)	(3,891,098)
Property and equipment	34,274	3,635,835	3,670,109
Total liabilities	10,778,484	13,132,489	23,910,973

## 19 Subsequent events

Subsequent events have been evaluated through June 13, 2022, the date the consolidated financial statements are available to be issued. There are no such events that require either recognition or disclosure in the consolidated financial statements.