

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Prospera Energy Inc. ("Prospera", the "Company", or the "Corporation") for the nine months ended September 30, 2021, and should be read in conjunction with the Company's interim financial statements and related notes for the same three months ended, (the "Interim Financial Statements") and its December 31, 2020 annual financial statements ("Annual Financial Statements") and related MD&A. The Interim Financial Statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures, numerical references and Oil and Gas advisories which can be found at the beginning of this MD&A. This MD&A is dated and was prepared using available information as of November 30, 2021.

Forward Looking Statements

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts that address activities, events or developments that Prospera expects are forward looking statements. The Corporation believes the expectations expressed in such forward-looking statements are based on reasonable assumptions which the Corporation is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Management's assessment of future plans and operations, capital expenditure requirements, methods of financing and the ability to fund financial liabilities, changes in royalty rates and the timing and impact of accounting policies may constitute forward-looking statements under applicable laws and necessarily involve risks including and without limitation, risks associated with oil and gas exploration, development and exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations imprecision of reserve estimates, environmental risks, competition from, other producers, the inability to fully realize the benefits of acquisitions, delays resulting from, or inability to obtain, required regulatory approvals and ability to access sufficient capital from internal and external sources. Readers and investors are cautioned that such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include market prices, exploration and exploitation successes, continued availability of capital and financing and general economic, market or business conditions.

Although the Corporation believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realised. The use of any of the words "anticipate", "believe", "continue", "estimate", "expect", "may", "will", "forecast", "project", "plan", "should" and similar expressions are intended to identify forward-looking information. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The risks associated with these forward-looking statements include, but are not limited to, the following:

- Fluctuations in oil production levels;
- Volatility in market prices for gas, liquids and oil
- Uncertainties associated with estimating reserves;
- Well production and decline rates;
- Changes in the general economic conditions in Canada and Worldwide;
- The effects of weather conditions;
- The ability of Prospera to obtain financing including equity and debt, and
- Actions taken and policies by governmental or regulatory authorities including changes to tax laws, incentive programs, royalty calculations and environmental regulations.

Additional Information

Additional information about Prospera, is available on SEDAR at www.sedar.com, and on the Corporation's website at www.prosperaenergy.com.

Oil and Gas Advisory

This document contains disclosure expressed as "Boe", "MBoe", "Boe/d", "Mcf", "Mcf/d", "MMcf", "MMcf/d", "Bcf", "Bbl", and "Bbl/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil (6:1). Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

Numerical References

Amounts are shown in Canadian dollars unless otherwise stated. All production volumes disclosed herein are sales volumes. The columns on some tables in this document may not add due to rounding.

Business Overview

Prospera is a Canadian natural resources corporation presently engaged in the acquisition, exploration and development of oil and gas properties in Western Canada.

The Corporation was incorporated on April 14, 2003, under the Canada Business Corporations Act ("CBCA"). The Corporation's shares initially began trading on the TSX Venture Exchange under the trading symbol "ORR" on March 29, 2005 and on the Frankfurt Exchange under the trading symbol "OF6" on June 21, 2006. On August 25, 2008, the Corporation's name was changed to "Georox Resources Inc." and the TSX Venture Exchange trading symbol changed to "GXR". On June 28, 2018 the Corporation changed its name to "Prospera Energy Inc. and the TSX Venture Exchange symbol changed to "PEI". The success of Prospera's operations is dependent upon several factors, including but not limited to, the price of energy commodity products, the effectiveness of the Company's approach to managing commodity price volatility, capital spending allocations, Prospera's ability to maintain desired levels of production, control over its infrastructure, its efficiency in developing and operating properties and its ability to manage costs.

Non-GAAP Measures

Certain measures used in this document, including "EBITDA", "funds flow from (used by) operations", "operating netback" and "current ratio", collectively the "Non-GAAP measures" do not have any standardized meaning as prescribed by IFRS and previous GAAP and, therefore, are considered Non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by Prospera to provide Shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. However, given their lack of standardized meaning, such measurements are unlikely to be comparable to similar measures presented by other issuers.

"EBITDA" refers to "Funds flow from operations" plus cash interest, and tax expenses.

"Funds flow from (used by) operations" refers to the cash flow from operating activities before net changes in operating working capital as shown in the statements of cash flows. Management utilizes funds flow from operations as a key measure to assess the ability of

the Company to finance operating activities, capital expenditures and credit facility repayments.

"Operating netback" is equal to petroleum and natural gas sales before financial instruments and bad debt expenses minus royalties, operating charges, and transportation costs. Management uses this metric to

measure the discrete operating results of its oil and gas properties.

"Current ratio" is defined as current assets as defined by IFRS, (excluding hedging gains and/or losses) divided by current liabilities as defined by IFRS (but

excluding any portion of the Credit Facility), to the extent that it is not past due, and unrealized hedging gains and /or losses).

Investors are cautioned that the Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with IFRS, as set forth above, or other measures of financial performance calculated in accordance with IFRS.

Operating Results Summary

The following table summarizes the key commodity price benchmarks for the following periods:

	Q3 2021	Q2 2021	Q3 2020	YTD 2021	YTD 2020
Crude Oil					
West Texas Intermediate monthly average (U.S.\$/Bbl)	70.56	66.12	40.92	64.82	37.23
Canadian Light Sweet monthly average (Cdn\$/Bbl)	83.16	77.35	49.74	75.67	43.67
Natural Gas					
NYMEX (Henry Hub close) monthly average (U.S.\$/MMBtu)	4.32	2.97	2.14	3.34	1.92
AECO monthly average (Cdn\$/GJ)	3.76	3.05	2.26	3.24	2.04
Canada - U.S. dollar closing exchange rate (Cdn\$/U.S.\$1)	1.26	1.23	1.33	1.25	1.35

Funds Flow from Field Operations per Boe

Per Unit of Sales Volume	Three Months Ended		
	September 30, 2021	June 30, 2021	September 30, 2020
(Dollar per Boe)			
Sales	63.18	63.82	40.02
Royalties	(6.57)	(9.74)	(4.92)
Operating cost	(108.04)	(51.32)	(62.67)
Operating netback	(51.43)	2.76	(27.58)
Interest and financing charge	(4.95)	(10.68)	(2.65)
General and administrative expense	(17.95)	(65.57)	8.28
Funds flow from operations	(74.33)	(73.49)	(21.95)

Field Operating Income Items

Third Quarter 2021 vs. Fourth Quarter 2020	Q3 2021	Q4 2020	Increase (Decrease)	
			Value	%
Average sales volumes:				
Natural gas (Mcf/d)	81	72	9	13
Oil and condensate (Bbl/d)	156	195	(39)	(20)
Total (Boe/d)	169	207	(38)	(18)
Liquids Composition (percentage)	92	94		
Average realized prices				
Natural gas (\$/Mcf)	-	3.56	(3.56)	-
Oil (\$/Bbl)	68.65	50.29	18.35	36
Average realized price (\$/Boe)	63.18	48.63	14.55	30
Operating netback				
Natural gas	-	23,445	(23,445)	-
Oil	982,966	903,269	79,697	9
Total petroleum and natural gas sales	982,966	926,714	56,252	6
Royalties	(102,247)	(57,119)	45,128	79
Operating costs	(1,680,959)	(1,230,011)	450,948	37
Operating netback	(800,241)	(360,416)	(439,825)	122

Comparison of Third Quarter 2021 over Fourth Quarter 2020

Petroleum and Natural Gas Sales – Oil sales increased by \$79,697 primarily due to higher commodity prices; partially offset by lower sales volumes. Natural gas sales decreased by \$23,445 due to lower sales volumes. Production decreased over the respective periods due to limited capital for field production maintenance.

Royalties – Royalties and the related effective rate increased in the third quarter of 2021 compared to the fourth quarter 2020 year, primarily on the sliding scale royalty rate impacted by higher commodity prices.

Operating Costs – Operating costs were higher in the third quarter of 2021 as compared to the fourth quarter of 2020 due to increased field compliance activities (372 non-compliance items addressed during Q3 2021), which included major pipeline and facility turnarounds, in addition to increased well workovers to reactivate field production.

Third Quarter 2021 vs. Third Quarter 2020	Q3 2021	Q3 2020	Increase (Decrease)	
			Value	%
Average sales volumes:				
Natural gas (Mcf/d)	81	162	(81)	100
Oil and condensate (Bbl/d)	156	297	(141)	(48)
Total (Boe/d)	169	324	(155)	(48)
Liquids Composition (percentage)	92	92		
Average realized prices				
Natural gas (\$/Mcf)	-	3.18	(3.18)	100
Oil (\$/Bbl)	68.65	41.92	26.73	64
Average realized price (\$/Boe)	63.18	40.02	23.16	58.00
Operating netback				
Natural gas	-	47,340	(47,340)	100
Oil	982,966	1,147,104	(164,138)	(14)
Total petroleum and natural gas sales	982,966	1,194,444	(211,478)	(18)
Royalties	(102,247)	(81,880)	20,367	25
Operating costs	(1,680,959)	(1,042,223)	638,736	61
Operating netback	(800,241)	70,341	(870,582)	(1,238)

Comparison of Third Quarter 2021 over Third Quarter 2020

Petroleum and Natural Gas Sales – Oil sales decreased by \$164,138 due to lower sales volumes; partially offset by higher realized pricing. Production decreased over the respective periods due to limited capital for field production maintenance.

Royalties – Royalties and the related effective rate increased in the third quarter of 2021 compared to the third quarter 2020 year, primarily on the sliding scale royalty rate impacted by higher commodity prices.

Operating Costs – Operating costs were higher in the third quarter of 2021 as compared to the third quarter of 2020 due to increased field compliance activities (372 non-compliance items addressed during Q3 2021), which included major pipeline and facility turnarounds, in addition to increased well workovers to reactivate field production.

Year-to-date 2021 vs Year-to-date 2020	YTD 2021	YTD 2020	Increase (Decrease)	
			Value	%
Average sales volumes:				
Natural gas (Mcf/d)	41	103	(62)	(60)
Oil and condensate (Bbl/d)	127	221	(94)	(43)
Total (Boe/d)	134	238	(104)	(44)
Liquids Composition (percentage)	95	93		
Average realized prices				
Natural gas (\$/Mcf)	-	2.62	(2.62)	(100)
Oil (\$/Bbl)	59.16	30.84	28.32	92
Average realized price (\$/Boe)	56.11	35.84	20.27	57
Operating netback				
Natural gas	-	57,246	(57,246)	(100)
Oil	2,057,686	2,291,548	(233,862)	(10)
Total petroleum and natural gas sales	2,057,686	2,348,794	(291,108)	(12)
Royalties	(213,592)	(133,923)	79,669	59
Operating costs	(2,573,602)	(3,053,071)	(479,469)	(16)
Operating netback	(729,509)	(838,200)	108,691	(13)

Comparison of Year-to-Date 2021 over Year-to-Date Quarter 2020

Petroleum and Natural Gas Sales – Oil sales decreased by \$233,862 due to lower sales volumes; partially offset by higher realized pricing. Production decreased over the respective periods due to limited capital for field production maintenance.

Royalties – Royalties and the related effective rate increased year-to-date 2021 compared to year-to-date 2020 year, primarily on the sliding scale royalty rate impacted by higher commodity prices.

Operating Costs – Operating costs were lower year-to-date 2021 as compared to year-to-date of 2020 primarily due to decreased production.

Depletion, Depreciation Expense, and Impairment

	Nine Months Ended		Twelve Months Ended
	September 30, 2021	September 30, 2020	December 31, 2020
Reported amount	203,492	1,086,088	10,235,967
Expense per sales volume (\$/Boe)	5.55	13.93	105.51

The change in depletion, depreciation and impairment expense over the above periods was primarily a function of production levels in the respective periods relative to the Company's estimated oil and gas reserves on a total proved plus probable basis and the one-time impairment in December 31, 2020.

General and Administrative Expenses

	Nine Months Ended		Twelve Months Ended
	September 30, 2021	September 30, 2020	December 31, 2020
General and administrative	1,204,819	402,886	571,481
Overhead recoveries and reclassifications to operating costs	(223,574)	(401,767)	(496,286)
Reported amount	981,245	1,119	75,195
Expense per sales volume (\$/Boe)	26.76	0.01	0.78

General and administrative expenses increased compared to prior periods primarily due to increased technical staffing costs over lower volumes. Technical staff was increased to prepare for an upcoming production reactivation program in late 2021/early 2022.

Share Based Compensation

	Nine Months Ended		Twelve Months Ended
	September 30, 2021	September 30, 2020	December 31, 2020
Reported Amount	-	13,490	111,024
Expense per sales volume (\$/Boe)	-	0.17	1.14

Interest, Financing, and Accretion Charges

	Nine Months Ended		Twelve Months Ended
	September 30, 2021	September 30, 2020	December 31, 2020
Accretion on decommissioning and restoration liability	134,303	185,426	16,832
Interest and other finance costs	150,211	145,659	162,923
Expense per sales volume (\$/Boe)	7.76	4.25	1.85

Accretion charges represent the increase in the Company's decommissioning and restoration liability associated with the passage of time.

Interest expense in the third quarter of 2021 was lower compared to year end primarily due to proceeds applied to the Company's credit facility. For additional information on Prospera's credit facility, refer below under the "Credit Facility" section of this MD&A and to note 10 of the Interim Financial Statements.

Liquidity and Capital Resources

The financial statements have been prepared on a going concern basis which assumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Corporation expects to finance its working capital deficiency and its ongoing working capital requirements through cash and adjusted funds flow from operations. The continuing operations of the Corporation are dependent upon its ability to continue to raise adequate financing in the future.

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities when due. As at September 30, 2021, the Corporation does not have sufficient cash equivalent to settle its \$9,513,014 of trade and other payables (2020 – \$ 10,605,689) and \$4,889,639 of credit facilities & debentures (December 31, 2020 – \$ 1,575,348). All of the Corporation's trade and other payables have contractual maturities of 30 days or less, are subject to standard trade terms and are scheduled for payment within one year.

The Corporation's working capital deficiency and shareholders' deficiency is below:

	As at	
	September 30, 2021	December 31, 2020
Current liabilities net of current assets	4,957,837	8,634,415
Shareholders' deficiency	35,667,517	34,233,865
	40,625,354	42,868,280

Refer to note 17 of the Interim Financial Statements for further disclosures on liquidity and capital management.

Working Capital

The working capital deficiency is funded by cash flow from operations and drawdowns from the Company's credit facility. Fluctuations in Prospera's working capital deficit arises primarily on production levels, commodity price changes, and capital expenditure levels.

Credit Facility & Debentures

	Debt	Derivative Liability	Total
Balance at December 31, 2019	2,412,424	-	2,412,424
Amounts drawn	-	-	-
Cash repayments	(762,076)	-	(762,076)
Disposition proceeds	-	-	-
Debt forgiveness	(75,000)	-	(75,000)
Expiry of share purchase warrants	-	-	-
Balance at December 31, 2020	1,575,349	-	1,575,349
Amount drawn on Debentures	5,028,181	-	5,028,181
Accrued interest on Debentures	146,458	-	146,458
Issuance cost on Debentures	(285,000)	-	(285,000)
Cash repayments on Credit Facility	(846,241)	-	(846,241)
Debt forgiveness on Credit Facility	(729,108)	-	(729,108)
Balance as at September 30, 2021	4,889,639	-	4,889,639

Credit Facilities

As at September 30, 2021, \$nil (December 31, 2020 - \$1,575,349) was outstanding in relation to credit facility A and \$nil (December 31, 2019 - \$nil) was outstanding in relation to Credit Facility B.

Debentures

As at September 30, 2021, \$4,889,639 (December 31, 2020 - \$nil) was outstanding in relation to 2021 8% convertible debentures. Interest is calculated and paid quarterly and may be paid in either cash or shares at the then market price, at the Corporation's discretion.

Shares, Options and Rights

The following provides a continuity of outstanding share capital:

	Common Shares	Amount
Shares as at December 31, 2019	65,122,311	11,649,956
Issue of share capital	-	-
Issue of share capital proceeds received in advance	-	-
Share issue costs	-	-
Issue of share purchase warrants	-	-
Shares as at December 31, 2020	65,122,311	11,649,956
Issue of share capital	46,179,866	840,586
Issue of share capital proceeds received in advance	-	-
Share issue costs	-	-
Issue of share purchase warrants	-	-
Shares as at September 30, 2021	111,302,177	\$ 12,490,542

Outstanding share options issued under Prospera's share option plan were 4,550,000 as at September 30, 2021, of which 4,550,000 share options were exercisable. Refer to note 13 of the Interim Financial Statements for additional disclosures.

Provision for Decommissioning

At September 30, 2021, Prospera recorded an increase in provision for decommissioning of future abandonment and reclamation for Prospera's properties of \$13.3 million when compared \$12.0 million at December 31, 2020, as a result of the Company's accretion expense and working interest acquisition in Q3 2021 – refer to Note 8 of the Interim Financial Statements for additional disclosures on the acquisition. The estimated provision for decommissioning includes assumptions in respect of actual costs to abandon wells or reclaim the property, the time frame in which such costs will be incurred as well as annual inflation factors in order to calculate the undiscounted total future liability. The future liability as at September 30, 2021, and September 30, 2020 was discounted at a risk-free interest rate of approximately 1.5 – 2 percent. Refer to note 11 of the Interim Financial Statements for additional disclosures on provision for decommissioning.

Related Party Transactions

During the nine months ended September 30, 2021, management, consulting and engineering fees of \$nil were included in general and administrative expenses, were charged by a former officer of the Corporation (December 31, 2020 – \$48,000). Included in trade and other payables at September 30, 2021 is \$nil (December 31, 2020 – \$12,000) owing to this officer.

The above transactions with related parties are in the normal course of business. The receivables and payables are unsecured in nature and bear no interest.

Personnel Expenses

a) Salaries, benefits and consulting fees

The Corporation's statement of loss and comprehensive loss is prepared primarily by nature of expense, with the exception of \$110,000 consulting fees for management personnel which are included in general and administrative expenses for the period ended September 30, 2021.

b) Key management compensation

Key management personnel include executive officers and non-executive directors. Executive officers are paid a salary and participate in the Corporation's stock option program. The executive officers include the Chief Executive Officer and Chief Financial Officer. Non-executive directors also participate in the Corporation's stock option program. Key management compensation is comprised of the following:

KEY MANAGEMENT COMPENSATION

	Nine months-ended September 30	
	2021	2020
Salaries and benefits	25,000	144,000
Consulting fees	110,000	-
Share-based payments	-	13,490
Deferred share units	-	-
	135,000	157,490

During 2021, nil deferred share units ("DSUs") (2020 – nil) were granted to directors. The fair value DSUs granted in 2021 was \$nil (2020 – \$nil) based on the market price of the Corporation's shares on the dates of grant, which is included in general and administrative expense.

	Number of DSUs	Amount
Balance as at December 31, 2017	933,241	104,029
Granted	295,513	18,875
Cancelled	(244,885)	(5,750)
Revaluation	-	(72,880)
Balance as at December 31, 2018	983,869	44,274
Granted	222,436	14,625
Cancelled	-	-
Revaluation	-	(25,416)
Shares as at December 31, 2019	1,206,305	\$ 33,483
Granted	-	-
Cancelled	-	-
Revaluation	-	(9,357)
Shares as at December 31, 2020 and September 30, 2021	1,206,305	\$ 24,126

As at September 30, 2021, the Corporation had 1,206,305 DSUs outstanding (December 31, 2020 – 1,206,305) for which the aggregate fair value of \$24,126 (2020 – \$33,483 is included in trade and other payables).

Quarterly Financial Information

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Petroleum and natural gas sales	982,966	437,572	637,148	510,279
Funds flow from (used by) operations	(1,079,565)	(430,680)	(164,509)	(868,192)
Comprehensive Income (loss)	(1,270,030)	(614,119)	450,498	(9,947,010)
Income (loss) per Share (in full amounts):				
Basic	(0.01)	(0.01)	0.01	(0.18)
Diluted	(0.01)	(0.01)	0.01	(0.18)
Total assets	8,492,766	7,431,222	5,925,707	5,479,977
Total current liabilities	9,513,014	7,774,592	11,860,145	12,181,037

	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Petroleum and natural gas sales	1,194,474	610,110	960,645	1,791,381
Funds flow from (used by) operations	238,513	1,015,791	(911,423)	(206,782)
Comprehensive Income (loss)	(210,992)	(345,148)	(1,222,407)	(976,349)
Income (loss) per Share (in full amounts):				
Basic	(0.01)	(0.01)	(0.02)	(0.02)
Diluted	(0.01)	(0.01)	(0.02)	(0.02)
Total assets	15,393,919	14,902,939	14,578,947	15,615,614
Total current liabilities	11,858,905	11,218,329	10,612,754	10,500,882

The fluctuations in Prospera's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas prices and the related impact on royalties. Gains (losses) on dispositions, impairments on exploratory and evaluation assets, property, plant, and equipment, goodwill can also create significant volatility in the Company's net earnings. Please refer to the Results of Operations and other sections

of this MD&A for detailed financial and operational variances between reporting periods and to Prospera's previously issued MD&As for changes in prior periods.

Critical Accounting Estimates

The historical information in this MD&A is based primarily on the Company's financial statements, which have been prepared in Canadian Dollars in accordance with IFRS. The application of IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Prospera bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. Refer to note 4 of the Interim Financial Statements.

New Accounting Pronouncements

The Corporation has assessed and evaluated the impact of adopting IFRS 16, which replaced IAS 17 – Leases and related interpretations, effective January 1, 2019. As a result of adoption, there is no material impact to the Audited Financial Statements. The Corporation plans on utilizing the modified retrospective approach. The modified retrospective approach does not require prior period comparative information to be restated, rather the cumulative effect of the change is recorded as of the date of adoption. The Corporation anticipates establishing its accounting policy in accordance with IFRS 16 as follows:

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date. An arrangement is a lease when the terms of the agreement relate to the use of a specific asset and the lessee has the right to control the use of the specified asset.

Lessee

On the date a leased asset is first available for use by the Corporation, a right-of-use ("ROU") asset and a corresponding lease liability are recognized. The ROU asset is depreciated over the lease term and the lease liability is reduced as payments are made under the agreement. Each lease payment is allocated between a principal repayment and an interest component.

Assets and liabilities recognized in respect of leases are recorded on a discounted basis. Lease liabilities consist of the net present value of the aggregate fixed lease payments, as defined by IFRS 16. Where the rate implicit in a lease is not readily determinable, lease payments are discounted using the Corporation's incremental borrowing rate. ROU assets are recognized at the amount corresponding to the amount of the initial lease liability. Lease payments in respect of short-term leases with terms of less than twelve months, or in respect of leases for which the underlying asset is of low value, are expensed as incurred.

Lessor

As a lessor, contractual arrangements which transfer substantially all of the risks and benefits of ownership of an asset to the lessee are accounted for as finance leases. Under a finance lease, the present value of the minimum lease payments receivable from the lessee are recorded as an account receivable. Lease payments received are applied against the receivable balance, with an interest component recognized as interest revenue.

If substantially all of the risks and benefits of ownership of an asset are not transferred to the lessee, the lease is classified as an operating lease and lease payments received are recognized as income over the term of the agreement.

On adoption of IFRS 16, the Corporation may elect to use the following practical expedients permitted under the standard:

- to rely on its previous assessment of whether leases are onerous by applying IAS 37 – Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- to apply a single discount rate to a portfolio of leases with similar characteristics;

- to account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and
- to account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of a low dollar value, as defined by IFRS 16.

Business Risks and Uncertainties

The risks in the oil and gas industry are varied and wide-ranging:

Going Concern

The Corporation's business is capital intensive and additional capital is required on a periodic basis. Specifically, continuing operations are dependent on management's ability to raise required funding through future equity issuances, credit facilities, asset sales or a combination thereof, which is not assured, especially in the current uncertain financial and commodity price environment. The sharp decline in commodity prices during the latter half of 2014 through to current period have negatively affected the Corporation's ability to access additional capital on terms acceptable to the Corporation, which is required for liquidity purposes and to fund commitments on the Corporation's properties. The current world-wide economic environment relating to the oil and gas industry has made access to capital challenging for many companies, including the Corporation. This has resulted in liquidity challenges and unless the Corporation is able to raise additional capital or renegotiate its commitments, it does not anticipate meeting all of its anticipated 2021 capital commitments. Furthermore, there is potential that future commodity prices and the world-wide economic environment relating to the oil and gas industry, in general, will remain relatively stagnate in its current position for an extended period of time and the Corporation will need to negotiate with its creditors to improve payment terms and/or pursue some form of asset sale, equity financing or other capital raising effort in order to fund its operations during the next twelve months. To that end, the Corporation is currently, and will continue, on an ongoing basis, examining alternative sources of capital, including potential debt and equity financing and ways to monetize its assets, including, without limitation, asset sales or swaps, joint ventures, corporate mergers or acquisitions, farmouts or other transactions with industry partners, all with a view to enhancing liquidity and meeting commitments. The need to raise capital or defer expenditures to fund ongoing operations creates uncertainty that may cast doubt over the Corporation's ability to continue as a going concern. There is no certainty that these and other strategies will be sufficient to permit the Corporation to continue as a going concern.

Future oil and natural gas exploitation may involve unprofitable efforts due to wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field-operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut in of connected wells for various reasons including access issues resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical issues. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

A material change in prices of commodities may affect the Corporation's borrowings, ultimately affecting the raising of equity capital by the Corporation. See note 2 of the Interim Financial Statements for additional disclosure.

Commodity Price Risk

The nature of the Corporation's operations results in exposure to commodity fluctuations. The Corporation closely monitors commodity prices to determine the appropriate course of action to be taken by the Corporation. A material change in prices of commodities affected the Corporation's borrowings, ultimately affecting the raising of equity financing. The Corporation does not hedge commodity price risk and has no physical forward price or financial

derivative sales contracts as at or during the nine months ended September 30, 2021. Although improved, petroleum prices are expected to remain volatile for the near future as a result of the market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions, regional conflicts and the ongoing global credit and liquidity concerns.

Operational Dependence

Other than one well on the Pouce Coupe property, the Corporation operates all of its own wells including two wells on the Pouce Coupe property, nine wells on the Red Earth property and over one hundred and ten wells on the recently acquired properties of Cuthbert, Hearts Hill and Luseland. The Corporation's dependence on assets operated by others is therefore extremely limited.

Regulatory Compliance

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Corporation's costs, any of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, the Corporation will require licenses from various government authorities. There can be no assurance that the Corporation will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Corporation and its operations and financial condition.

Substantial Capital Requirements

The Corporation anticipates making capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future in order to replace reserves. If the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. In addition, uncertain levels of near-term industry activity exposes the Corporation to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes including repayment of loan facilities when due or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access

sufficient capital for its operations and capital requirements could have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Dilution

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

Conflicts of Interest

Certain directors of the Corporation are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the CBCA. See "Directors and Officers – Conflicts of Interest".

Legal, Environmental, Remediation and other Contingent Matters

The Corporation reviews legal, environmental remediation and other contingent matters to both determine whether a loss is probable based on judgment and interpretation of laws and regulations, and determine that the loss can reasonably be estimated. When the loss is determined, it is charged to earnings. The Corporation's management monitors known and potential contingent matters and makes appropriate provisions by charges to earnings when warranted by circumstances.

Management's Responsibility for Financial Statements

The information provided in this MD&A and the Corporation's financial statements is the responsibility of management. In the preparation of this information, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. Management maintains a system of internal controls to provide reasonable assurance that the Corporation's assets are safeguarded and to facilitate the preparation of relevant and timely disclosure information.

Directors:

Samuel David, Calgary, AB, Canada
Mel Clifford, Kelowna, BC, Canada
Brian McConnell, Calgary, AB, Canada
Mark Lacey, Blackfalds, AB, Canada
Jasdip Dhaliwal, Calgary, AB, Canada

Officers:

Sandra Lee Chong, Calgary, AB, Canada
George Magarian, Calgary, AB, Canada
Kamal Alam, Calgary, AB, Canada
Mathew Kenna, Calgary, AB, Canada

Other:

Corporate Office: Ste 700, 1300-8 Street SW, Calgary, AB T2R 1B2
Auditors: MNP LLP, 800-700 6th Avenue, S.W., Calgary, Alberta T2P 0T8
Legal Counsel: Dentons Canada LLP,
Suite 1500-850 2 St SW, Calgary AB T2P 0R8
Transfer Agent: Computershare Trust Company of Canada,
100 University Ave., 11th Fl., South Tower, Toronto, ON M5J 2Y1
Bank: ATB Financial 102 – 8th AVE. S.W. Calgary, Alberta T2P 1B3