



Interim Financial Statements

September 30, 2022 and 2021

(in Canadian dollars)

PROSPERA ENERGY INC.

Statements of Financial Position

As at September 30, 2022

	Note	September 30, 2022	December 31, 2021
ASSETS			
Cash		\$ 61,452	\$ 281,519
Trade and other receivables	5	4,425,228	1,405,573
Prepaid expenses and deposits		1,010,898	505,728
Inventory		237,863	237,863
Total current assets		5,735,441	2,430,683
Non-current assets			
Property and equipment	6	26,974,242	23,073,890
Right-of-use	6	536,809	627,965
Total assets		\$ 33,246,492	\$ 26,132,538
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current liabilities			
Trade and other payables	7	\$ 12,993,980	\$ 8,645,147
Flow-through share premium		17,000	17,000
Current portion of lease liabilities		54,680	64,121
Total current liabilities		13,065,660	8,726,268
Non-current liabilities			
CEBA loan		40,000	40,000
Decommissioning liabilities	10	22,372,049	23,038,341
Convertible debt	8	4,849,278	6,533,076
Lease liabilities	9	627,147	578,689
Total liabilities		40,954,134	38,916,374
Shareholders' deficiency			
Share capital	11	16,176,107	12,452,481
Share purchase warrants	11	4,139,744	863,740
Contributed surplus		1,336,942	3,981,894
Equity portion of convertible debt		162,605	60,211
Deficit		(29,523,040)	(30,142,162)
Total shareholders' deficiency		(7,707,642)	(12,783,836)
Total liabilities and shareholders' deficiency		\$ 33,246,492	\$ 26,132,538

Going Concern (Note 2)

Subsequent Events (Note 17)

Approved and authorized by the Board of Directors:

Signed "Samuel David" , Director

Signed "Mel Clifford" , Director

The accompanying notes are an integral part of these financial statements

PROSPERA ENERGY INC.

Statements of Income (Loss) and Comprehensive Income (Loss)
For the quarter ended September 30, 2022

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Revenues					
Petroleum and natural gas sales	15	\$ 3,752,046	982,966	11,422,332	2,093,686
Royalties		(451,488)	(102,247)	(1,540,559)	(213,592)
		3,300,558	880,719	9,881,773	1,880,094
Expenses					
Operating		1,766,191	1,235,928	6,190,994	2,061,126
General and administrative	13	222,541	278,220	1,165,270	981,245
Share based compensation		31,773	-	48,919	-
Depletion and depreciation	6	486,231	126,826	1,440,987	203,492
Workover		528,742	487,845	639,326	512,477
Accretion		97,473	-	286,619	134,303
		3,132,951	2,128,819	9,772,115	3,892,643
Operating Income (loss)		167,607	(1,248,100)	109,658	(2,012,549)
Finance Expense		(188,291)	(1,104)	(542,249)	(150,211)
Gain on debt forgiveness		959,652	-	1,051,711	729,108
Income (loss)		938,968	(1,249,204)	619,120	(1,433,652)
Income (loss) per share	12	\$ 0.01	(0.01)	(0.00)	(0.01)

PROSPERA ENERGY INC.

Statement of Changes in Shareholder's Deficiency
For the Year To Date Period ended September 30, 2022

		Nine months ended September 30	
	Note	2022	2021
Share capital			
	11		
Balance, December 31		\$ 12,452,481	\$ 11,649,955
Warrants executed		282,708	-
Debenture conversion		3,283,051	-
Issuance of share capital		157,867	840,586
Balance, September 30		16,176,107	12,490,541
Share purchase warrants			
	11		
Balance, December 31		863,740	154,641
Warrants issued on debt conversion		2,847,234	-
Warrants issued on private placement		582,133	-
Warrants executed		(153,363)	-
Balance, September 30		4,139,744	154,641
Contributed surplus			
Balance, December 31		3,981,894	3,804,198
Stock based compensation		40,167	-
Warrants executed		(673,947)	-
Issuance of warrants from convertible debt conversion		(2,011,172)	-
Balance, September 30		1,336,942	3,804,198
Equity portion of convertible debt			
Balance, December 31		60,211	-
Conversion of convertible debt (equity portion)		5,173	-
Issuance of convertible debt (equity portion)		97,221	-
Balance, September 30		162,605	-
Deficit			
Balance, December 31		(30,128,149)	(34,233,865)
Consolidate accumulated other comprehensive income		(14,013)	(14,013)
Income (loss) for the period		619,122	(1,433,652)
Balance, September 30		(29,523,040)	(35,667,517)
Total shareholders' deficiency		\$ (7,707,642)	\$ (19,232,150)

PROSPERA ENERGY INC.

Statement of Cash Flows

For the Year to Date Period ended September 30, 2022

		Nine months ended September 30,	
	Note	2022	2021
Cash flows provided by (used in) operating activities			
Income (loss) for the period		\$ 619,120	\$ (1,433,652)
Add back (deduct):			
Depletion, depreciation and impairment	6	1,440,987	203,492
Accretion	6	286,619	134,303
Share based payments		48,919	-
Right of use asset		39,017	-
Finance expense		523,354	150,211
Gain on debt forgiveness		(1,051,711)	(729,108)
Decommissioning liabilities settled		(980,400)	-
Change in non-cash working capital:			
Trade and other receivables		(3,019,655)	(1,089,393)
Prepaid and other current assets		(505,170)	15,721
Inventory		-	(78,119)
Trade and other payables		5,400,541	(1,092,674)
Net cash flows provided by (used in) operating activities		2,801,621	(3,919,219)
Cash flows provided by (used in) financing activities			
Proceeds from share issuance		740,000	800,000
Execution of Warrants		313,042	-
Change in non-cash working capital		-	(248,169)
Proceeds from convertible debt/credit facilities		1,224,573	4,181,940
Net cash flows provided by (used in) financing activities		2,277,615	4,733,771
Cash flows provided used in investing activities			
Property and equipment expenditures	6	(5,299,303)	(58,264)
Change in non-cash working capital		-	(899,525)
Net cash flows used in investing activities		(5,299,303)	(957,789)
Change in cash			
Cash, beginning of period		281,519	153,393
Cash, end of period		\$ 61,452	\$ 10,156

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

1. General

Prospera Energy Inc. (the “Corporation” or “Prospera”) was incorporated under the Canada Business Corporations Act on April 14, 2003 as Georox Resources Inc. The Corporation changed its name to Prospera on June 28, 2018. The Corporation is listed on the TSX-Venture Exchange under the ticker “PEI” and its primary business is the acquisition of, exploration for, and the development of petroleum and natural gas properties in Canada.

The address of the Corporation’s registered office is Suite 730, 444 7th Ave SW, Calgary, Alberta, Canada, T2P 0X8.

2. Going Concern

These financial statements have been prepared on a going concern basis, which implies the Corporation will continue to realize its assets and discharge its liabilities in the normal course of business. The Corporation has historically met its day-to-day working capital requirements and funded its capital and operating expenditures through funding received from the proceeds of share issuances and debt.

As of September 30, 2022, the Corporation has a working capital deficiency of \$7,330,220 (December 31, 2021 – \$6,295,585), and an accumulated deficit of \$29,523,040 (December 31, 2021 – \$30,142,162).

There is a material risk that the Corporation will be unable to meet its payable obligations including payments related to trade payables. Management continually monitors and updates the Corporation’s financing requirements, and to date the Corporation was able to raise \$2,277,615 from investment in 2022. Management is continuously engaged in discussions with existing shareholders and creditors on proposed transactions and agreements that would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following September 30, 2022.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at September 30, 2022, the availability of additional financing, and the timing and extent of capital and operating expenditures. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Corporation’s ability to continue as a going concern.

COVID-19 and the war in Ukraine has contributed to significant volatility in financial and commodity markets. They have impacted global commercial activity, including causing significant fluctuations in worldwide demand and prices for certain commodities, including crude oil, natural gas, and natural gas liquids. The pandemic and the war in Ukraine remain dynamic and the ultimate duration and magnitude of the impact on the economy and financial effect on the Company is not known at this time.

The financial statements have been prepared on a basis which asserts that the Corporation will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner with consideration to expected possible outcomes. Conversely, if the assumption made by management is not appropriate and the Corporation is unable to meet its obligations as they fall due, the preparation of these financial statements on a going concern basis may not be appropriate and adjustments to the carrying amounts of the Corporation’s assets, liabilities, revenues, expenses, and balance sheet adjustments may be necessary. Such adjustments could be material.

PROSPERA ENERGY INC.

Notes to the Financial Statements
For the quarter ended September 30, 2022

3. Basis of Preparation

(a) Statement of compliance

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were approved and authorized for issuance by the Corporation's Board of Directors on November 16, 2022.

(b) Basis of measurement

The financial statements have been prepared in accordance with IFRS on a historical cost basis except as otherwise noted.

(c) Presentation and functional currency

These financial statements are presented in Canadian dollars (unless stated otherwise), which is also the Corporation's functional currency.

(d) Use of judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The accounting policies subject to such judgments and the key sources of estimation uncertainty that the Corporation believes could have the most significant impact on the reported results and financial position are as follows:

Critical accounting judgments

- Business combinations

Management uses judgment to determine whether a transaction constitutes a business combination or asset acquisition and is based on the criteria in IFRS 3 Business Combinations.

- Cash-generating units

The Corporation's assets are aggregated into cash-generating units ("CGUs") based on an assessment of the unit's ability to generate independent cash in-flows. The determination of the Corporation's CGUs was based on management's judgment regarding shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations. The Corporation has three petroleum and natural gas CGUs: Pouce Coupe and Red Earth in the province of Alberta and Cuthbert, Hearts Hill, Luseland as combined CGUs in the province of Saskatchewan.

- Impairment

Judgment is required to assess when impairment indicators are evident and impairment testing is required.

- Going concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital requirements involves judgement. The board of directors monitors future cash requirements to assess the Corporation's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 2.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

3. Basis of Preparation (continued)

- Current and deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation operates are subject to change. As such, current and deferred taxes are subject to measurement uncertainty. Management uses judgment to assess deferred tax assets at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

- Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. Although the Corporation believes it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

Key sources of estimation uncertainty

- Valuation of accounts receivable

Expected credit losses are reviewed by the Corporation on a monthly basis. The Corporation calculates the expected credit losses on accounts receivable using a provision matrix which is based on the Corporation's historical credit loss experience for accounts receivable to estimate the lifetime expected credit losses. Management makes these assessments after taking into consideration the customer's payment history, their credit worthiness, and the current economic environment in which the customer operates to assess impairment. The Corporation's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfil its payment obligations can change suddenly and without notice.

- Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the statement of income (loss) and comprehensive income (loss) and is also a key determinant in assessing whether the carrying value of any of the Corporation's petroleum and natural gas assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows.

The Corporation's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

- Business combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of petroleum and natural gas assets based upon the estimation of recoverable quantities of proved and probable reserves acquired, forecast benchmark commodity prices and discount rates. These estimates impact the potential for recognizing goodwill or a bargain purchase gain, future depletion, and impairment.

- Carrying value of non-financial assets

If any indication exists that an asset or CGU may be impaired, the Corporation estimates the recoverable amount. The recoverable amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use and fair value less costs to dispose.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

3. Basis of Preparation (continued)

These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs, and other relevant assumptions, all of which are subject to change. A material adjustment to the carrying value of the Corporation's non-financial assets may be required as a result of changes to these estimates and assumptions.

- Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs, and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

- Decommissioning liabilities

Amounts recorded for the Corporation's provision for decommissioning liabilities require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third-party information and calculations and are subject to change over time and may have a material impact on the financial statements.

- Deferred taxes

Deferred taxes are based on estimates as to the timing of the reversal of temporary and taxable differences, substantively enacted tax rates and the likelihood of assets being realized.

- Stock options and share purchase warrants

Stock options and share purchase warrants are valued using the Black-Scholes pricing model. Estimates and assumptions for inputs to the model, including the expected volatility of the Corporation's shares and the expected life of the options and share purchase warrants, are subject to significant uncertainties and judgment. Expected volatility is estimated using a historical trading period for the Corporation's shares that matches the life of the related stock options or share purchase warrants.

4. Summary of Significant Accounting Policies

(a) Joint arrangements

The Corporation's oil and natural gas activities involve joint operations. The financial statements include the Corporation's share of the jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(b) Cash

Cash consists of cash deposits held in Canadian banks. The Corporation does not have any cash equivalents as at September 30, 2022 and 2021.

(c) Inventory

Inventory is stated at the lower of cost and net realizable value. The cost of producing oil and natural gas is accounted for on a weighted average basis. These costs include all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of oil and natural gas is the producing cost, including royalties and the appropriate proportion of depletion and depreciation and overheads. Net realizable value of oil and natural gas is based on estimated selling price in the ordinary course of business less any expected selling costs.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

4. Summary of Significant Accounting Policies (continued)

(d) Property and equipment

Petroleum and natural gas assets

All costs directly associated with the development of petroleum and natural 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 proved property acquisitions, development drilling and completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets.

Costs incurred subsequent to the determination of technical feasibility and commercial viability, costs of replacing parts of petroleum and natural gas assets and workovers of petroleum and natural gas assets are recognized as assets only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognized in the statement of income (loss) and comprehensive income (loss) when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognized. The costs of day-to-day servicing of petroleum and natural gas assets are recognized in the statement of loss and comprehensive loss as incurred.

Petroleum and natural gas assets are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes to estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Processing facilities and well equipment are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value.

Administrative assets, consisting of office furniture and equipment are depreciated on a declining balance basis over their estimated useful lives at rates ranging from 20% to 30% per annum.

For divestitures of petroleum and natural gas assets, a gain or loss is recognized in the statement of income (loss) and comprehensive income (loss). Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured in which case the cost of the acquired asset is measured at the carrying value of asset given up. Where the exchange is measured at fair value, a gain or loss is recognized in the statement of income (loss) and comprehensive income (loss).

Impairment

At the end of each reporting period, the Corporation reviews petroleum and natural gas assets for circumstances that indicate the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing. If any such indication of impairment exists, the Corporation makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to dispose and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less cost to dispose is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to dispose of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

4. Summary of Significant Accounting Policies (continued)

When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is first allocated to reduce the carrying amount of goodwill, should it exist, then allocated on a pro rata basis to the assets within the CGU. Impairment losses are recognized in the statement of loss and comprehensive loss.

At the end of each subsequent reporting period these impairments are assessed for indicators of reversal. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized in the statement of income (loss) and comprehensive income (loss).

(e) Goodwill

The Corporation records goodwill relating to a business combination when the purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is reported at cost less any impairment and is not amortized. Goodwill is evaluated when facts and circumstances indicate that it is impaired, or at least on an annual basis.

To test for impairment, goodwill is allocated to the related CGU expected to benefit from the acquisition. Goodwill is tested by comparing the carrying amount of the CGU to the recoverable amount. Fair value less costs to dispose is derived by estimating the discounted after-tax future net cash flows as described in the property and equipment impairment test, plus the fair market value of undeveloped land, seismic and inventory. Value in use is assessed using the present value of the expected future cash flows. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Goodwill impairments are not reversed.

(f) Provision for decommissioning liabilities

The Corporation recognizes a provision for decommissioning liabilities in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning liability is recorded with a corresponding increase in the carrying amount of the related asset.

The provision for decommissioning liabilities is measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision 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 accretion expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of decommissioning liabilities are charged against the provision to the extent a liability was established.

(g) Income taxes

Taxes on earnings for the periods presented are comprised of current and deferred tax. Taxes are recognized in the statement of income (loss) and comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the statement of financial position method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. Deferred tax is also not recorded on differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

4. Summary of Significant Accounting Policies (continued)

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

(h) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

(i) Share purchase warrants

The Corporation may issue share purchase warrants as part of a unit issuance comprised of a share and warrant or as a share issue cost. Share purchase warrants are classified as equity instruments. Consideration received on the sale of a share and share purchase warrant classified as equity is allocated, within equity, to the respective equity accounts on a reasonable basis. The fair value of share purchase warrants is measured at the date of issuance using the Black-Scholes pricing model taking into account the terms and conditions upon which the share purchase warrants were issued. Share purchase warrants classified as equity instruments are not subsequently re-measured for changes in fair value.

(j) Share-based payments

The Corporation follows the fair value method of accounting for stock options. The fair value of each stock option is calculated on the grant date using the Black-Scholes pricing model and is charged to income over the vesting period of the stock option, with a corresponding increase recorded in contributed surplus. Forfeitures are accounted for at grant date and adjusted based on actual vesting. Upon exercise of stock options, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase to share capital.

(k) Financial instruments

The Corporation classifies its financial instruments in the following measurement categories:

- Subsequently measured at fair value (either through profit or loss ("FVTPL") or other comprehensive income ("FVOCI"); or
- Subsequently measured at amortized cost.

The classification depends on the Corporation's business model for managing the financial instruments and the contractual terms of the cash flows.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, trade and other payables, credit facilities, CEBA loan and convertible debt. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at FVTPL, any directly attributable transaction costs. Transaction costs of financial assets measured at FVTPL are expensed in the statement of income (loss) and comprehensive income (loss). Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

4. Summary of Significant Accounting Policies (continued)

- Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in the statement of income (loss) and comprehensive income (loss). A financial asset is classified at FVTPL unless it is measured at amortized cost or classified as FVOCI. However, an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in FVOCI with no reclassification of realized gains or losses in the statement of income (loss) and comprehensive income (loss) upon derecognition of the equity instruments.

- Financial liabilities at FVTPL

The Corporation classifies the contingent liability as FVTPL. A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in the statement of income (loss) and comprehensive income (loss). Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the statement of income (loss) and comprehensive income (loss). Any gain or loss on derecognition is also recognized in the statement of income (loss) and comprehensive income (loss).

A financial liability is derecognized when the obligation is discharged, cancelled, or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in the statement of income (loss) and comprehensive income (loss) based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in the statement of income (loss) and comprehensive income (loss).

- Financial assets at FVOCI

Financial assets at FVOCI are measured at fair value, and changes therein are recognized in other comprehensive income. A financial asset is classified as FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and 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 instruments at amortized cost

The Corporation classifies cash, trade and other receivables, trade and other payables, CEBA loan, credit facilities and convertible debt as financial instruments at amortized cost. These financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Any gain or loss arising on de-recognition is recognized directly in the statement of income (loss) and comprehensive income (loss). Impairment losses are presented as separate line item in the statement of income (loss) and comprehensive income (loss).

Derivative financial instruments

The Corporation has not entered into any financial derivative contracts.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

4. Summary of Significant Accounting Policies (continued)

(l) Impairment of financial instruments

The Corporation assesses, on a forward-looking basis, the expected credit losses associated with financial instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Corporation applied the simplified approach permitted by IFRS 9 Financial Instruments ("IFRS 9").

Trade and other receivables are assessed for impairment individually, if significant, and collectively if the assets share similar credit risk characteristics. If an impairment is required, the carrying amount of trade and other receivables is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Net adjustments to the allowance account are recorded in the statement income (loss) and comprehensive income (loss).

(m) Deferred share units

The Corporation has a deferred share unit ("DSU") plan, whereby DSUs are issued to the Corporation's Board of Directors. Each DSU is a notional unit equal in value to one common share, which entitles the holder to a cash payment upon redemption. DSUs can only be converted to cash upon the holder ceasing to be a director of the Corporation. The expense associated with the DSU plan is determined based on the market price of the Corporation's common shares on the grant date. The expense is recognized in the statement of income (loss) and comprehensive income (loss) in the period in which the units are granted with a corresponding liability recorded in trade and other payables. At period end dates, the DSU liability is adjusted based on the market price of the Corporation's common shares on the period end date.

(n) Per share amounts

The Corporation presents basic and diluted per share data for its common shares. Basic per share amounts are calculated by dividing the profit (loss) attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting earnings attributable to common shareholders and the weighted average number of common shares outstanding, adjusted, for the effects of all dilutive potential common shares.

(o) Revenue recognition

The Corporation recognizes revenue from the sale of petroleum and natural gas when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon and the Corporation has the present right to payment. Sales of oil and natural gas are based on variable pricing based on benchmark commodity prices and other variable factors including quality, location, and other factors. Interest income is recognized when earned.

(p) Leases

The Corporation 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 Corporation 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 Corporation 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 Corporation will exercise a purchase, extension or termination option that is within the control of the Corporation.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

4. Summary of Significant Accounting Policies (continued)

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 Corporation will re-measure the lease liability using the Corporation'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.

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.

(q) Changes in accounting standards

New standards and policies adopted in 2022

The corporation included a revenue and royalty accrual for March 2022 production (along with December, January and February actual revenue/royalties) in the Q1 2022 financial results which is consistent with IFRS 15 and IAS 18.

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. These amendments are not expected to have a material impact on the Corporation's consolidated financial statements upon adoption.

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.

Determination of Fair Value

A number of the Corporation'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.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

4. Summary of Significant Accounting Policies (continued)

(a) Financial instruments

The fair values of cash, trade and other receivables, trade and other payables, credit facilities, CEBA loan and convertible debt approximated their carrying amount on September 30, 2022, and 2021 due to their short term to maturity.

The Corporation determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1– Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward rates for interest rate, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data. The Corporation does not hold any Level 3 financial instruments.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

(b) Share purchase warrants and stock options

The Corporation uses the Black-Scholes pricing model to estimate the fair value of share purchase warrants and stock options issued, modified, or granted. The Black-Scholes pricing model was based on the following assumptions:

	2022	2021
	Stock Options and Warrants (Note 11)	Stock Options (Note 11)
Expected volatility	150%	150.35% - 174.71%
Risk-free rate	1.66%	0.18% - 1.23%
Expected life	2 - 5 years	2 - 5 years
Expected dividend yield	0%	0%
Forfeiture rate	0%	0%

5. Trade and Other Receivables

The Corporation's trade and other receivables are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Corporation's trade and other receivables include amounts due from the sale of petroleum and natural gas. The Corporation's maximum exposure to credit risk at September 30, 2022 is in respect of \$4,425,228 (December 31, 2021 - \$1,405,573) of trade and other receivables.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

5. Trade and Other Receivables (continued)

The Corporation's trade and other receivables consist of:

	September 30, 2022	December 31, 2021
Trade receivables	\$ 4,425,228	\$ 1,405,573

The Corporation's trade receivables relating to petroleum and natural gas sales are aged as follows:

	September 30, 2022	December 31, 2021
0 to 60 days	\$ 520,069	\$ 58,240
61 to 90 days	542,051	237,414
Over 90 days	3,363,108	1,109,919
	\$ 4,425,228	\$ 1,405,573

The majority of receivables over 90 days are held by working interest owners. The Corporation can take working interest net profits as payment against these receivables. The majority of receivables 0 – 60 days are related to September petroleum and natural gas sales.

6. Property and Equipment

	Petroleum and natural gas assets	Right-of-use assets
Balance, December 31, 2021	38,181,334	638,093
Capital additions	53,047	-
Office lease	-	(38,304)
Balance, March 31, 2022	38,234,381	599,789
Capital additions	1,122,157	-
Property acquisitions	329,488	-
Office lease	-	(38,304)
Balance, June 30, 2022	39,686,026	561,485
Capital additions	3,745,491	-
Office expense reclass	-	76,608
Balance, September 30, 2022	43,431,517	638,093
Accumulated depletion, depreciation, and impairment		
Balance, December 31, 2021	15,107,444	10,128
Depletion and depreciation (not including ROU)	539,053	-
Balance, March 31, 2022	15,646,497	10,128
Depletion and depreciation (not including ROU)	415,703	-
Balance, June 30, 2022	16,062,200	10,128
Depletion and depreciation (not including ROU)	395,075	91,156
Balance, September 30, 2022	16,457,275	101,284
December 31, 2021	23,073,890	627,965
September 30, 2022	26,974,242	536,809

PROSPERA ENERGY INC.

Notes to the Financial Statements
For the quarter ended September 30, 2022

6. Property and Equipment (continued)

The following table provides the forecast benchmark commodity prices used in the September 30, 2022 reserve calculations.

Year:	December 31, 2021		
	Light Oil Cdn\$/bbl	Heavy Oil Cdn\$/bbl	Natural Gas Cdn\$/mcf
2022	86.77	74.77	3.48
2023	81.25	71.25	3.19
2024	78.75	68.25	2.99
2025	80.33	69.62	3.07
2026	81.93	71.01	3.13
Escalation rate thereafter	+ 2% per year	+ 2% per year	+ 2% per year

7. Trade and Other Payables

The Corporation's trade and other payables consist of:

	September 30, 2022	December 31, 2021
Trade payables	\$ 9,185,042	\$ 7,351,060
Convertible debt to be issued	302,000	510,000
Accrued liabilities and other payables	3,506,938	784,087
Trade & other payables	\$ 12,993,980	\$ 8,645,147

Trade payables are non-interest bearing and are normally settled between 30 to 120-day terms.

8. Credit Facilities and Convertible Debt

The following table presents the continuity of the Corporation's credit facilities & convertible debt:

	Total
Balance, December 31, 2020	1,575,348
Interest	270,654
Cash repayments	(876,764)
Loan forgiveness, net of costs	(698,585)
Issuance of convertible debt	6,754,410
Equity component of convertible debt	(60,211)
Transaction costs	(574,501)
Amortization of transaction costs	142,725
Balance, December 31, 2021	\$ 6,533,076
Convertible debt converted	(1,085,406)
Interest	183,490
Balance, March 31, 2022	\$ 5,631,160
Convertible debt converted	(918,813)
Issuance of convertible debt private placement	729,162
Issuance of convertible debt asset acquisition	505,176
Interest	173,506
Balance, June 30, 2022	\$ 6,120,191

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

Convertible debt converted	(1,415,589)
Interest	144,676
Balance, September 30, 2022	\$ 4,849,278

During Q1 2022, the Corporation raised \$1,478,573 in convertible debt, which was approved by the TSX in Q2 2022. The summary and terms of each convertible debenture private placement are as follows:

Private Placement (non-working interest related)	Debenture Amount
Debentures Investments	\$ 738,573
Units Investments	\$ 740,000
Total	\$ 1,478,573

Private Placement:	Debentures	Units
Issuer:	Prospera Energy Inc. (the Company).	Prospera Energy Inc. (the Company).
Issue:	Debentures with a 2-year term, secured.	
Conversion Price:	Upon conversion, each debenture will entitle the holder to one Common Share and one share purchase warrant, at a price of \$0.05 in year one and \$0.10 in year two. Each share purchase warrant obtained through conversion of the debenture can be exercisable into another Common Share at a price of \$0.075 for a period of two years from initial closing. The Corporation reserves the right to force conversion in the event that the shares of the Corporation trade at \$0.30 for a period of ten days or more. The Corporation may also accelerate the expiry of the warrants to 15 days if the shares trade at \$0.10 for 5 consecutive days following the expiry of the 4 month hold period.	The price of each unit is \$0.075(the Unit Offering). Each unit is composed of one Common Share of the Corporation and one share purchase warrant. Each warrant issued through this Unit Offering will entitle the holder to acquire one additional share in the capital of the Corporation at a price of \$0.10 per share for a period of two (2) years from the date the units are issued. The Corporation reserves the right to accelerate the expiry date of the warrants to fifteen (15) days, in the event the share trades at \$0.125 for five (5) consecutive business days following the expiry of the four (4) months hold period.
Offering Amount:	Up to \$2,000,000 (the Offering).	Up to \$2,000,000 (the Offering).
Underlying Shares:	Common shares of the Company to be listed on the TSXV Exchange under the symbol PEI (the Common Shares).	Common shares of the Company to be listed on the TSXV Exchange under the symbol PEI (the Common Shares).
Use of Proceeds:	The Company intends to use the net proceeds of the Offering for working capital and acquisitions	The Company intends to use the net proceeds of the Offering for working capital and acquisitions
Interest:	8% interest per annum, compounded quarterly. Interest may be paid in cash or in shares at the then market price, at the Company's discretion.	No Interest to be paid
Dividend Adjustment and Anti-Dilution:	The conversion price and Warrants will also be subject to standard antidilution adjustments upon, inter alia, share consolidations, share splits, spin off events, rights issues, and reorganizations.	The Units and Warrants will also be subject to standard antidilution adjustments upon, inter alia, share consolidations, share splits, spin off events, rights issues, and reorganizations.
Offering Basis:	Private placement offering.	Private placement offering.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

9. Lease liability

	2022	2021
Balance, beginning of year	\$ 642,810	\$ -
Addition	-	638,093
Accretion	39,016	4,717
	681,827	642,810
Less: current portion	(54,680)	(64,121)
Balance, end of year	\$ 627,147	\$ 578,689

The Corporation is committed under an office lease that expires on February 28, 2027. The minimum monthly payment of \$8,850 to \$10,331 and has been discounted at a rate of 8.53%.

10. Decommissioning Liabilities

The Corporation's provision for decommissioning as at September 30, 2022 and 2021 is based on the following estimates and assumptions:

- Total discounted future cash flows of \$22,372,049 as of September 30, 2022 (Dec 31, 2021 – \$23,038,341)
- Annual inflation rate of 4% for 2022 & 2023; 2024+ 2% (2020 – 1.5%)
- Settlement of the liability occurring in approximately 1 to 15 years (2020 – 1 to 15 years)

Risk free discount rate of 1.66% (2020 – 1.55%)

Balance, December 31, 2021	\$ 23,038,341
Decommissioning liabilities settled	(156,496)
Accretion	93,281
Balance, March 31, 2022	\$ 22,975,126
Property Acquisition	27,488
Decommissioning liabilities settled	(229,901)
Accretion	95,865
Balance, June 30, 2022	\$ 22,868,578
Decommissioning liabilities settled	(594,002)
Accretion	97,473
Balance, September 30, 2022	\$ 22,372,049

PROSPERA ENERGY INC.

Notes to the Financial Statements
For the quarter ended September 30, 2022

11. Share Capital

(a) Common shares

Authorized - The Corporation is authorized to issue an unlimited number of common shares.

	Common Shares	Share Capital
Balance at December 31, 2021	113,380,145	\$12,452,481
Issuance of shares (debenture conversion)	23,363,508	1,095,410
Issuance of shares (warrant execution)	2,351,683	230,084
Balance at March 31, 2022	139,095,336	\$13,777,975
Issuance of shares (debenture conversion)	19,384,787	888,848
Issuance of shares (private placement)	9,866,667	157,867
Issuance of shares (warrant execution)	3,734,674	52,624
Balance at June 30, 2022	172,081,464	\$14,877,314
Issuance of shares (debenture conversion)	26,300,000	1,298,793
Balance at September 30, 2022	198,381,464	\$16,176,107

- (i) In Q3 2022, the Corporation converted 26,300,000 units from the convertible debenture program at \$0.05 per unit.

(b) Share purchase warrants - a continuity of the Corporation's share purchase warrants outstanding is as follows:

	Weighted Average Exercise Price	Number of Share Purchase Warrants	Amount
Balance, December 31, 2020	\$ 0.07	6,510,000	\$ 154,641
Issued on unit private placement	0.05	40,000,000	347,990
Issued on flow-through private placement	0.075	1,700,000	34,210
Finder's warrants issued	0.05	6,123,493	198,285
Management incentive warrants issued	0.05	8,000,000	283,255
Expired	0.07	(6,510,000)	(154,641)
Balance, December 31, 2021	\$ 0.051	55,823,493	\$ 863,740
Warrants issued upon convertible debt conversion	\$0.075	21,910,048	810,672
Warrants executed	\$0.050	(4,601,683)	(71,201)
Balance, March 31, 2022	\$0.058	73,131,858	\$ 1,603,211
Warrants issued upon convertible debt conversion	\$0.075	19,384,787	836,062
Warrants issued upon private placement	\$0.10	9,866,667	582,133
Warrants executed	\$0.052	(13,769,851)	(82,162)
Balance, June 30, 2022	\$0.067	88,613,461	\$ 2,939,244
Warrants issued upon convertible debt conversion	\$0.075	26,300,000	1,200,500
Balance, September 30, 2022	\$0.069	114,913,461	\$ 4,139,744

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

11. Share Capital (continued)

Stock options

The Corporation's stock option plan provides for the granting of options to directors, officers, employees, and consultants. Under the terms of the option plan, options issued shall not exceed 10% of the issued and outstanding shares. The aggregate number of common shares reserved for issuance to any one director, officer or employee in any 12-month period shall not exceed 5% of the Corporation's issued and outstanding common shares at the date of grant, and the aggregate number of common shares reserved for issuance pursuant to options granted to any one consultant in any 12-month period may not exceed 2% of the Corporation's issued and outstanding common shares at the date of the grant. Stock options are non-assignable, non-transferrable and non-tradable and shall be exercisable for a term not to exceed five years from the date of the grant. The exercise price of stock options shall be fixed by the Corporation's Board of Directors on the basis of the market price of the Corporation's shares on the grant date.

A continuity of the Corporation's stock options outstanding is as follows:

	Number	Weighted-Average Exercise Price
Balance, December 31, 2021	3,750,000	0.05
Granted	-	-
Expired	-	-
Balance, March 31, 2022	3,750,000	0.05
Granted	750,000	0.05
Expired	-	-
Balance, June 30, 2022	4,500,000	0.05
Granted	-	-
Expired	-	-
Balance, September 30, 2022	4,500,000	0.05

The range of exercise prices of the outstanding options and exercisable options as at September 30, 2022 were as follows:

Expiry date	Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price	Weighted-Average Contractual Life Remaining (Years)
June 30, 2025	800,000	800,000	\$0.05	2.75
December 31, 2025	2,100,000	-	\$0.05	3.25
June 30, 2026	350,000	-	\$0.05	3.75
December 22, 2026	500,000	-	\$0.05	4.23
April 1, 2027	50,000	-	\$0.05	4.50
June 30, 2027	700,000	-	\$0.05	4.75
Total, September 30, 2021	4,500,000	800,000	\$0.05	3.56

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

12. Income (Loss) per Share

The following table reflects the income (loss) and share data used in the basic and diluted income (loss) per share calculations:

	Nine Months Ended September 30,	
	2022	2021
Income (loss) for the period	\$ 938,968	\$ (1,433,652)
Number of common shares, start of period	113,380,145	105,122,278
Number of common shares, end of period	198,381,464	105,122,278
Basis weighted average number of common shares	164,805,994	105,122,278
Income (loss) per share	\$ 0.01	\$ (0.01)

13. Related Party Transactions

All transactions with related parties are in the normal course of business and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties. The receivables and payables are unsecured and bear no interest.

- For the nine months ended September 30, 2022, salaries and wages of \$90,000 were paid to related party officers or directors of the Corporation.
- For the nine months ended September 30, 2022, expenditures of \$572,860, were charged by an officer or director of the Corporation or by a Corporation controlled by an officer or director.
- At September 30, 2022, \$341,039 is included in trade and other payables owing to officers and directors of the Corporation or to Corporations controlled by officer or directors.

Personnel Expenses

(a) Salaries, benefits and consulting fees

The Corporation's statement of Income and comprehensive Income is prepared primarily by nature of expense, with the exception of \$90,000 of salaries and benefits and \$43,929 of consulting fees for management personnel which are included in general and administrative expenses for the quarter ended September 30, 2022 (2021 – \$25,000 of salaries and benefits and \$110,000 of consulting fees).

Directors of PEI were awarded 700,000 options @ \$0.05/option in May 2022 which is accounted for in share based compensation expense.

(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:

	Nine months ended September 30,	
	2022	2021
Consulting fees	\$ 43,929	\$ 110,000
Salaries and benefits	90,000	25,000
Share-based payments	48,919	-
	\$ 182,848	\$ 135,000

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarter ended September 30, 2022

13. Related Party Transactions (continued)

(c) Asset Acquisition

Brooks light oil acquisition - In Q2 2022 P&NG rights were acquired from Cabaca Resources Ltd. for initial proceeds of \$302,000. Cabaca is controlled by PEI President & CEO Sam David. This transaction was approved by the TSX exchange and closed on November 15, 2022.

14. Financial Risk Management and Capital Management

The Corporation's activities expose it to a variety of financial risks arising from its financial assets and liabilities. The Corporation manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Corporation are:

Credit Risk

The Corporation is exposed to credit risk in relation to its cash and trade and other receivables. Cash is held with highly rated Canadian banks. Therefore, the Corporation does not believe these financial instruments are subject to material credit risk. The Corporation's trade and other receivables include amounts due from the sale of petroleum and natural gas (Note 15). The Corporation's production is sold to a variety of purchasers under normal industry sale and payment terms. Accounts receivables are from customers and joint operating partners in the Canadian petroleum and natural gas industry and are subject to normal industry specific credit risk.

Liquidity Risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its financial liabilities when they become due. Management mitigates liquidity risk by maintaining banking and other borrowing facilities, continuously monitoring forecast and actual cash flows, and actively seeking equity financing to assist with projected cash outflows. As at September 30, 2022, the Corporation has a working capital deficiency of \$7,330,220 and an accumulated deficit of \$29,523,040. The Corporation's ability to continue as a going concern (Note 2) is continuously dependent on achieving profitable operations and accessing additional financing.

Market Risk

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate with changes in market interest rates. The Corporation is not exposed to interest rate fluctuations at September 30, 2022 as there are no investments of excess cash in short-term money market investments and credit facilities are at fixed rates of interest.

Foreign currency risk

Management believes the foreign currency risk arising from currency exchange rate fluctuations related to financial instruments held in foreign currencies is negligible as the Corporation held no foreign denominated financial instruments as at September 30, 2022.

Commodity price risk

The nature of the Corporation's operations results in exposure to commodity price fluctuations. The Corporation closely monitors commodity prices to determine the appropriate course of action to be taken. The Corporation does not hedge commodity price risk and has no physical forward price or financial derivatives sales contracts as at September 30, 2022.

Capital Management

The Corporation's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, to sustain the development of the Corporation's current capital projects and for future development of the Corporation.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarters ended September 30, 2022

14. Financial Risk Management and Capital Management (continued)

The Corporation monitors its working capital and expected capital spending and raises additional equity by the issue of share capital to manage its development plans. The Corporation has no externally imposed capital requirements apart from the banking covenants on the Corporation's credit facilities.

The Corporation continues to assess additional petroleum and natural gas projects and plans to raise additional debt or equity amounts as needed to fund acquisitions and to maintain sufficient working capital to meet administrative expenditures. The Corporation considers its capital structure to be working capital and shareholders deficiency. Management reviews its capital management approach on a regular basis and believes that this approach, given the relative size of the Corporation, is reasonable. There were no changes in the Corporation's approach to capital management during the quarter ended September 30, 2022. As of September 30, 2022, the Corporation has a working capital deficiency of \$7,330,219 (December 31, 2021 – \$6,295,585), and an accumulated deficit of \$29,523,040 (December 31, 2021 – \$30,142,162).

In March 2020, the World Health Organization declared COVID-19 a global pandemic which resulted in devastating impacts on many countries around the world and, more particularly for the oil and gas industry. It has had a severe destabilizing effect on the demand and supply balance. While demand has increased recently, it is uncertain whether the effects of the virus or its variants will recur in some form to affect this balance.

The war in Ukraine has created uncertainty worldwide and the economic consequences have been extensive. The war has caused volatility of energy and commodity prices as well as inflation and supply chain disruptions which have impacted financial markets significantly. At this time the full impact of this world event on the Corporation is uncertain.

15. Petroleum and Natural Gas Sales

The following table represents the Corporation's petroleum and natural gas sales disaggregated by commodity:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Petroleum	\$ 3,706,896	957,810	\$ 11,329,332	2,057,203
Natural Gas	43,769	25,156	88,796	36,482
Total*	\$ 3,750,664	982,966	\$ 11,418,127	2,093,686

* Does not include Other Income of \$1,381 (Q3 2022)

The Corporation sells its petroleum and natural gas production pursuant to variable-price contracts which generally have a term of one year or less. The transaction price for variable priced contracts is based on the commodity index price and may include adjustments for quality, location or other factors depending on the contract terms. The Corporation delivers variable or fixed volumes of crude oil and variable volumes of natural gas to the respective counterparty throughout the contract period. Sales revenue is recognized when production is delivered to the contract counterparty. The transaction price that is used in determining the amount of sales revenue to recognize is subject to variability due to fluctuations in commodity prices over the contract period. Volumes delivered to the contract counterparty are limited to the Corporation's ability to transfer production. Sales revenue is recognized at a point in time when a customer obtains legal title to the product, which is when volumes are physically transferred to the contract counterparty. The amount of sales revenue recognized is based on the transaction price. Transaction price variability, discussed above, is recognized in the same period as the Corporation is not constrained in meeting its performance obligations.

During the quarter ended September 30, 2022, all of the Corporation's petroleum and natural gas sales were generated in Saskatchewan and Alberta and the production was sold primarily to four major customers. The Corporation's petroleum sales result from variable price contracts whereby the transaction price is predominantly based on the WTI index price in the transaction month with variable adjustments for quality, location and or other factors. The transaction price for all-natural gas sales is based on the AECO benchmark price. Sales revenues are typically collected on the 25th day of the month following production.

PROSPERA ENERGY INC.

Notes to the Financial Statements

For the quarters ended September 30, 2022

16. Contingencies

The Corporation is party to litigation in the normal course of operations. Management has performed an assessment of the probability of an unfavorable outcome of existing claims and has determined that the likelihood and financial impact cannot be reasonably estimated at the reporting period date. The Corporation does not carry an accrual relating to this item in the financial statements.

17. Subsequent Events

- (a) Saskatchewan Heavy Oil Acquisition – Prospera has signed a purchase and sale agreement with a publicly traded Canadian oil and gas firm. The acquisition will allow the Corporation to expand its core asset holdings and will provide significant upside to reserves, production volume and strategic infrastructure. The closing of this transaction is contingent on Saskatchewan MER license transfer approval and expected closing date is December 31, 2022.