



**Financial Statements**

**December 31, 2021 and 2020**

**(in Canadian dollars)**



**Crowe MacKay LLP**

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## **Independent Auditors' Report**

To the Shareholders of Prospera Energy Inc.

### **Opinion**

We have audited the financial statements of Prospera Energy Inc. ("the Company"), which comprise the statement of financial position as at December 31, 2021 and the statements of income and comprehensive income, changes in shareholders' deficiency and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Emphasis of Matter – Restated Comparative Information**

We draw attention to Note 3 to the financial statements, which explains that certain comparative financial information for the year ended December 31, 2020 has been restated. Our opinion is not modified in respect of this matter.

The financial statements of Prospera Energy Inc. for the year ended December 31, 2020, excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those financial statements on May 7, 2021.

As part of the audit of the financial statements for the year ended December 31, 2021, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the financial statements for the year ended

December 31, 2020. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

### **Other Information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditors' report. If, based on the work we have

performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates

and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Todd Freer.

*Crowe MacKay LLP*

**Chartered Professional Accountants**

**Calgary, Canada  
July 5, 2022**

# PROSPERA ENERGY INC.

Statements of Financial Position

As at December 31,

			2020
	Note	2021	(Restated – Note 3)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 281,519	\$ 153,393
Trade and other receivables	6	1,405,573	2,967,449
Prepaid expenses and deposits		505,728	296,104
Inventory		237,863	226,890
<b>Total current assets</b>		<b>2,430,683</b>	<b>3,643,836</b>
<b>Non-current assets</b>			
Property and equipment	8	23,073,890	1,933,355
Right-of-use	8	627,965	-
<b>Total assets</b>		<b>\$ 26,132,538</b>	<b>\$ 5,577,191</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
<b>Current liabilities</b>			
Trade and other payables	9	\$ 8,645,147	\$ 10,906,989
Flow-through share premium	14	17,000	-
Current portion of lease liabilities	10	64,121	-
Credit facilities	11	-	1,575,348
<b>Total current liabilities</b>		<b>8,726,268</b>	<b>12,482,337</b>
<b>Non-current liabilities</b>			
CEBA loan		40,000	40,000
Decommissioning liabilities	12	23,038,341	11,938,023
Convertible debt	11	6,533,076	-
Lease liabilities	10	578,689	-
<b>Total liabilities</b>		<b>38,916,374</b>	<b>24,460,360</b>
<b>Shareholders' deficiency</b>			
Share capital	14	12,452,481	11,649,956
Share purchase warrants	14	863,740	154,641
Contributed surplus		3,981,894	3,804,198
Equity portion of convertible debt	11	60,211	-
Accumulated other comprehensive income		(14,013)	(14,013)
Deficit		(30,128,149)	(34,477,951)
<b>Total shareholders' deficiency</b>		<b>(12,783,836)</b>	<b>(18,883,169)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>\$ 26,132,538</b>	<b>\$ 5,577,191</b>

Going Concern (Note 2)

Contingencies (Note 21)

Subsequent Events (Note 22)

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 year ended December 31, 2021

			2020
	Note	2021	(Restated – Note 3)
<b>Revenues</b>			
Petroleum and natural gas sales	20	\$ 4,410,761	\$ 3,275,508
Royalties		(447,340)	(191,042)
		3,963,421	3,084,466
<b>Expenses</b>			
Operating		5,066,863	4,399,330
General and administrative	17(a)	1,648,743	75,195
Depletion and depreciation	8	599,013	1,216,198
Impairment (reversal)	8	(6,849,087)	9,019,769
Share-based payments	14	306,310	111,024
Accretion	12	301,162	16,832
		1,073,004	14,838,348
<b>Operating Income (loss)</b>		2,890,417	(11,753,882)
Finance expense		(374,861)	(49,380)
Gain on debt forgiveness		1,834,246	75,000
<b>Income (loss) and comprehensive income (loss)</b>		\$ 4,349,802	\$ (11,728,262)
<b>Income (loss) per share</b>	15	\$ 0.05	\$ (0.18)

# PROSPERA ENERGY INC.

Statement of Changes in Shareholder's Deficiency  
For the year ended December 31, 2021

	Note	2021	2020 (Restated – Note 3)
<b>Share capital</b>			
Balance, January 1	14(a)	\$ 11,649,956	\$ 11,649,956
Private placement of common share units		800,000	-
Value allocated to share purchase warrants		(347,990)	-
Private placement of flow-through share units		102,000	-
Value allocated to flow-through premium		(17,000)	-
Value allocated to share purchase warrants		(34,210)	-
Shares issued to settle debt		327,893	-
Share issue costs		(28,168)	-
Balance, December 31		12,452,481	11,649,956
<b>Share purchase warrants</b>			
Balance, January 1	14(b)	154,641	297,834
Warrants issued on private placement		347,990	-
Warrants issued on flow-through private placement		34,210	-
Finder's warrants issued		198,285	-
Warrants issued		283,255	100,000
Expiry of share purchase warrants		(154,641)	(243,193)
Balance, December 31		863,740	154,641
<b>Contributed surplus</b>			
Balance, January 1		3,804,198	3,549,981
Share-based payments		23,055	11,024
Expiry of share purchase warrants		154,641	243,193
Balance, December 31		3,981,894	3,804,198
<b>Equity portion of convertible debt</b>			
Balance, January 1		-	-
Issuance of convertible debt, net of costs		60,211	-
Balance, December 31		60,211	-
<b>Accumulated other comprehensive income</b>			
Balance, January 1		(14,013)	(14,013)
Balance, December 31		(14,013)	(14,013)
<b>Deficit</b>			
Balance, January 1		(34,477,951)	(22,749,689)
Income (loss) for the year		4,349,802	(11,728,262)
Balance, December 31		(30,128,149)	(34,477,951)
<b>Total shareholders' deficiency</b>		<b>\$ (12,783,836)</b>	<b>\$ (18,883,169)</b>

# PROSPERA ENERGY INC.

## Statement of Cash Flows

For the year ended December 31, 2021

	Note	2021	2020 (Restated – Note 3)
<b>Cash flows provided by (used in) operating activities</b>			
Income (loss) for the year		\$ 4,349,802	\$ (11,728,262)
Add back (deduct):			
Depletion, depreciation and impairment	8	599,013	1,216,198
Impairment (reversal)	8	(6,849,087)	9,019,769
Accretion	12	301,162	16,832
Share-based payments	14(c)	306,310	111,024
Finance expense		418,095	162,923
Gain on debt forgiveness		(1,834,246)	(75,000)
Decommissioning liabilities settled	12	(74,160)	-
<b>Change in non-cash working capital:</b>			
Trade and other receivables		(2,625,582)	(863,593)
Prepaid and other current assets		(209,624)	121,157
Inventory		(10,973)	34,694
Trade and other payables		158,643	2,616,253
Net cash flows provided by (used in) operating activities		(5,470,647)	631,995
<b>Cash flows provided by (used in) financing activities</b>			
Proceeds from share issuance		902,000	-
Share issuance costs		(18,413)	-
Proceeds from debenture issuance, net		6,469,410	-
Debenture issue costs		(100,971)	-
Repayment of credit facilities	11	(876,763)	(762,076)
Interest expense		-	(162,923)
Net cash flows provided by (used in) financing activities		6,375,263	(924,999)
<b>Cash flows provided used in investing activities</b>			
Property and equipment expenditures	8	(776,490)	(23,034)
Net cash flows used in investing activities		(776,490)	(23,034)
<b>Change in cash</b>			
		128,126	(316,038)
Cash, beginning of year		153,393	469,431
<b>Cash, end of year</b>		<b>\$ 281,519</b>	<b>\$ 153,393</b>

Supplemental disclosure of non-cash items

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# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 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 7<sup>th</sup> 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 December 31, 2021, the Corporation has a working capital deficiency of \$6,295,585 (2020 – \$8,838,501), and an accumulated deficit of \$30,128,149 (2020 – \$34,477,951). Throughout the year, Prospera Energy settled outstanding debt of \$1,575,348 owing to Tallinn Capital Mezzanine LP and by doing so, the Corporation has decreased its liquidity risk.

There is a material risk that the Corporation will be unable to meet its payable obligations including payments related to trade payables and municipal property taxes. Management continually monitors and updates the Corporation’s financing requirements. In 2018, the Corporation acquired an aggregate 35 percent working interest in producing properties; in 2019, the Corporation acquired an incremental 15 percent working interest in the same producing properties; and in 2021 acquired an incremental 34 percent working interest in the same producing properties (Note 7) to fund its ongoing operations and generate additional cash flow. The Corporation also disposed non-core assets and related liabilities during 2019. Proceeds were used to repay debt. 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 December 31, 2021.

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 December 31, 2021, 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.

## 3. Restatement of prior period error

During the year, management identified an error in how the Corporation was accounting for its property taxes. As a result of this error, the following balances have been restated:

# PROSPERA ENERGY INC.

Notes to the Financial Statements  
For the year ended December 31, 2021

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## 3. Restatement of prior period error (continued)

As at and for the year ended December 31, 2020:

	As previously stated	Adjustment	Restated
Net loss	\$ (11,725,557)	\$ (2,705)	\$ (11,728,262)
Prepaid expenses and deposits	198,890	97,214	296,104
Trade and other payables	10,565,689	341,300	10,906,989
Deficit	(34,233,865)	(244,086)	(34,477,951)

Impact on operating cash flows for the year ended December 31, 2020:

	As previously stated	Adjustment	Restated
Net loss	\$ (11,725,557)	\$ (2,705)	\$ (11,728,262)
Prepaid expenses and deposits	218,371	97,214	121,157
Trade and other payables	2,516,334	99,919	2,616,253

## 4. 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 July 5, 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.

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 4. Basis of Preparation (continued)

- 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 in regard to 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 CGU's 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.

- 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.

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 4. Basis of Preparation (continued)

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.

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.

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 5. 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 December 31, 2021 and 2020.

### (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.

### (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).

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 5. Summary of Significant Accounting Policies (continued)

### *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.

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.

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 5. Summary of Significant Accounting Policies (continued)

### (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.

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.

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 5. Summary of Significant Accounting Policies (continued)

### (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:

- 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).

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 5. Summary of Significant Accounting Policies (continued)

- 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.

### **(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 of 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.

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 5. Summary of Significant Accounting Policies (continued)

### (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. None of the variable revenue is considered constrained.

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.

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 adopted in 2021*

There were no new standards or amendments to existing standards that impacted the Corporation's financial statements in the current year.

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 5. Summary of Significant Accounting Policies (continued)

### *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.

### **(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 at December 31, 2021 and 2020 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.

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

## Determination of Fair Value (continued)

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:

	<u>2021</u>	<u>2020</u>
	Stock Options and Warrants (Note 14(c))	Stock Options (Note 14(c))
Expected volatility	150.35% - 174.71%	188%
Risk-free rate	0.18% - 1.23%	0.4%
Expected life	2 - 5 years	5 years
Expected dividend yield	0%	0%
Forfeiture rate	0%	0%

## 6. 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 December 31, 2021 is in respect of \$1,405,573 (2020 - \$2,967,449) of trade and other receivables. See Note 19.

The Corporation's trade and other receivables at December 31 consist of:

	<u>2021</u>	<u>2020</u>
Trade receivables	\$ <b>1,405,573</b>	\$ <b>2,967,449</b>

The Corporation's trade receivables relating to petroleum and natural gas sales are aged at December 31 as follows:

	<u>2021</u>	<u>2020</u>
0 to 60 days	\$ 58,240	\$ 383,795
61 to 90 days	237,414	226,686
Over 90 days	1,109,919	2,356,968
	\$ <b>1,405,573</b>	\$ <b>2,967,449</b>

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.

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

## 7. Business Combinations

### a) 5% and 6% Working Interest Acquisition (2021)

On September 17, 2021 (effective June 30, 2021), the Corporation completed an acquisition of an additional 5% net working interest from a joint venture partner in the southwest Saskatchewan Hearts Hills and Luseland properties and 6% net working interest from a joint venture partner in the southwest Saskatchewan Cuthbert property. The purchase price was satisfied by a reduction of the vendors arrears for operational costs of \$915,339. The acquisition was accounted for as a business combination using the acquisition method of accounting as follows:

Fair value of net assets acquired:	
Petroleum and natural gas assets	\$ 3,755,765
Provision for decommissioning liabilities	(2,840,515)
<b>Total net assets acquired</b>	<b>\$ 915,250</b>
Consideration:	
Forgiveness of participating interest holder's charges in arrears	915,250
<b>Total purchase price</b>	<b>\$ 915,250</b>

### b) 10% Working Interest Acquisition (2021)

On September 17, 2021 (effective June 30, 2021), the Corporation completed an acquisition of an additional 10% net working interest from a joint venture partner in the southwest Saskatchewan Hearts Hills, Luseland and Cuthbert properties. The purchase price was satisfied by a reduction of the vendors arrears for operational costs of \$826,884. The acquisition was accounted for as a business combination using the acquisition method of accounting as follows:

Fair value of net assets acquired:	
Petroleum and natural gas assets	\$ 3,915,257
Provision for decommissioning liabilities	(3,088,373)
<b>Total net assets acquired</b>	<b>\$ 826,884</b>
Consideration:	
Forgiveness of participating interest holder's charges in arrears	826,884
<b>Total purchase price</b>	<b>\$ 826,884</b>

### c) 18% Working Interest Acquisition (2021)

On January 27, 2022 (effective October 1, 2021), the Corporation completed an acquisition of an additional 18% net working interest from a joint venture partner in the southwest Saskatchewan Hearts Hills, Luseland and Cuthbert properties. The purchase price was satisfied by a reduction of the vendors arrears for operational costs of \$903,392 and \$510,000 of Prospera convertible debt (issued subsequent to year-end) and \$75,000 of installment payment commitments. The acquisition was accounted for as a business combination using the acquisition method of accounting as follows:

Fair value of net assets acquired:	
Petroleum and natural gas assets	\$ 4,749,273
Provision for decommissioning liabilities	(3,260,881)
<b>Total net assets acquired</b>	<b>\$ 1,488,392</b>
Consideration:	
Forgiveness of participating interest holder's charges in arrears	903,392
Prospera convertible debt (note 9)	510,000
Installment payment commitment (5 months at \$15,000 / month)	75,000
<b>Total purchase price</b>	<b>\$ 1,488,392</b>

# PROSPERA ENERGY INC.

Notes to the Financial Statements  
For the year ended December 31, 2021

## 7. Business Combinations (continued)

The estimated fair value of the petroleum and natural gas assets acquired (P&E) were made by management based on available information at the time of the closing of the acquisition.

The fair value of the provision for decommissioning was determined using estimates of the timing and future costs associated with plugging, abandonment and site remediation costs of the petroleum and natural gas assets acquired, discounted at a risk-free rate of (1.66% percent) in accordance with IFRS 3 Business Combinations and IFRS 13 Fair Value Measurement.

The Corporation cannot reasonably estimate the contribution of these additional working interest acquisitions to revenues and net income (loss) for the periods from the acquisition date nor the annual impact had the acquisitions occurred on January 1, 2021. As such, disclosure has not been provided which represents a departure from IFRS.

## 8. Property and Equipment

	Petroleum and natural gas assets	Right-of-use assets
<b>Cost</b>	\$	\$
Balance, December 31, 2019	23,495,162	-
Additions	23,934	-
Revisions to decommissioning liabilities	(218,095)	-
<b>Balance, December 31, 2020</b>	<b>23,301,001</b>	-
Additions	776,488	638,093
Business combinations	12,420,295	-
Revisions to decommissioning liabilities	1,683,550	-
<b>Balance, December 31, 2021</b>	<b>38,181,334</b>	<b>638,093</b>
<b>Accumulated depletion, depreciation and impairment</b>		
Balance, December 31, 2019	11,131,679	-
Depletion and depreciation	1,216,198	-
Impairment	9,019,769	-
<b>Balance, December 31, 2020</b>	<b>21,367,646</b>	-
Impairment reversal	(6,849,087)	-
Depletion and depreciation	588,885	10,128
<b>Balance, December 31, 2021</b>	<b>15,107,444</b>	<b>10,128</b>
<b>Net carrying amount</b>		
December 31, 2020	1,933,355	-
<b>December 31, 2021</b>	<b>23,073,890</b>	<b>627,965</b>

During the year ended December 31, 2021 and 2020, the Corporation recognized the following impairments and impairment (reversals):

	2021	2020
Petroleum and natural gas assets	\$ (6,849,087)	\$ 9,019,769

# PROSPERA ENERGY INC.

Notes to the Financial Statements  
For the year ended December 31, 2021

## 8. Property and Equipment (continued)

At December 31, 2021 the Corporation tested its petroleum and natural gas CGUs for impairment. The fair value less costs to dispose of the Corporation's Red Earth CGU did not exceed its carrying value and therefore an impairment of \$359,085 was recorded on this CGU in 2021 (2020 – impairment of \$3,711,350). The fair value less costs to dispose of the Corporation's Pouce Coupe and Saskatchewan CGUs did exceed their carrying values resulting in an impairment reversal of \$118,160 and \$7,152,719 respectively being recorded on these CGUs in 2021 (2020 – Pouce Coupe recorded an impairment of \$804,566 and Saskatchewan recorded an impairment of \$4,503,852).

The Corporation determined the recoverable amounts for its CGUs based on fair value less costs to dispose using discounted future cash flows prepared by independent reserve engineers. In determining the recoverable amount, the Corporation considered recent transactions within the industry, long-term views of commodity prices, externally evaluated reserve volumes, and discount rates specific to the CGUs. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates, operating cost structures and commodity prices. The fair value less costs to dispose estimates are categorized as Level 3 according to the IFRS 13 fair value hierarchy. In computing the December 31, 2021 recoverable amounts, future cash flows were adjusted for risks specific to the CGUs and discounted using a discount rate of 10% (2020 – 15%).

Changes in any of the key judgments, such as a downward revision in reserves, a decrease in forecast benchmark commodity prices, changes in foreign exchange rates, an increase in royalties or an increase in operating costs would decrease the recoverable amounts of assets and any impairment charges would affect net loss. A five percent increase in the assumed discount rate would result in approximately \$nil (2020 - \$320,326) of further impairment.

The following table provides the forecast benchmark commodity prices used in the December 31, 2021 and 2020 impairment and reserve calculations.

Year:	December 31, 2021			December 31, 2020		
	Light Oil Cdn\$/bbl	Heavy Oil Cdn\$/bbl	Natural Gas Cdn\$/mcf	Light Oil Cdn\$/bbl	Heavy Oil Cdn\$/bbl	Natural Gas Cdn\$/mcf
2022	86.77	74.77	3.48	60.78	43.97	2.67
2023	81.25	71.25	3.19	63.82	48.11	2.60
2024	78.75	68.25	2.99	68.14	51.88	2.60
2025	80.33	69.62	3.07	69.97	52.94	2.65
2026	81.93	71.01	3.13	-	-	-
Escalation rate thereafter	+ 2% per year	+ 2% per year	+ 2% per year	+ 2% per year	+ 2% per year	+ 2% per year

## 9. Trade and Other Payables

The Corporation's trade and other payables consist of:

	2021	2020
Trade payables	\$ 7,351,060	\$ 10,460,143
Convertible debt not yet issued (note 7)	510,000	-
Accrued liabilities and other payables	784,087	446,846
	<b>\$ 8,645,147</b>	<b>\$ 10,906,989</b>

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

# PROSPERA ENERGY INC.

Notes to the Financial Statements  
For the year ended December 31, 2021

## 10. Lease liability

	2021	2020
<b>Balance, beginning of year</b>	\$ -	\$ -
Addition (note 8)	638,093	-
Accretion	4,717	-
	<b>642,810</b>	-
<b>Less: current portion</b>	<b>(64,121)</b>	-
<b>Balance, end of year</b>	<b>\$ 578,689</b>	\$ -

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%.

The accretion expense of \$4,717 (2020 - \$nil) was recorded as finance charges in the statement of income (loss) and comprehensive income (loss).

## 11. Credit Facilities and Convertible Debt

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

	Total
Balance, December 31, 2019	\$ 2,412,424
Cash repayments	(762,076)
Debt forgiveness	(75,000)
Balance, December 31, 2020	1,575,348
Interest	270,653
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

On July 5, 2021 Prospera received full release and discharge of the Tallin Capital Mezzanine credit facility; as a result, Tallin's registered security notice was discharged from all Prospera properties. Prospera made total payments of \$876,764 in 2021 and received loan forgiveness of \$698,560 (\$729,108 less legal costs of \$30,523).

Prospera Energy Inc. completed three convertible debt private placements throughout 2021 raising total proceeds of \$6,754,410 in financing.

Total transaction costs incurred in relation to the placements amounted to \$574,501, which includes 5,788,182 finder's warrants valued at \$188,530 using the Black Scholes model (Note 14).

# PROSPERA ENERGY INC.

Notes to the Financial Statements  
For the year ended December 31, 2021

## 11. Credit Facilities and Convertible Debt

The summary and terms of each convertible debenture private placement are as follows:

Private Placement:	April 2021	July 2021	November 2021
Issuer:	Prospera Energy Inc. (the Company).		
Issue:	Debentures with a 2-year term, secured.		
Conversion Price:	\$0.05 – convertible into units consisting of one common share and one warrant exercisable into another common share at \$0.075 for a period of two years from initial closing. The Company reserves the right to force conversion in the event that the shares of the Company trade at \$0.30 for a period of ten days or more.	\$0.05 in year one and \$0.10 in the year two convertible into units consisting of one common share and one warrant exercisable into another common share at \$0.075 for a period of two years from initial closing. The Company reserves the right to force conversion in the event that the shares of the Company trade at \$0.30 for a period of ten days or more.	
Amount Raised:	\$3,310,411	\$1,506,000	\$1,938,000
Underlying 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		
Interest:	8% interest calculated monthly, compounded, and paid quarterly. Interest may be paid in cash or in shares at the then market price, at the Company's discretion.		
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.		
Offering Basis:	Private placement offering.		

## 12. Decommissioning Liabilities

The Corporation's provision for decommissioning as at December 31, 2021 and 2020 is based on the following estimates and assumptions:

- Total discounted future cash flows of \$23,038,341 (2020 – \$11,398,023)
- 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%)

	2021	2020
Balance, beginning of year	\$ 11,938,023	\$ 12,139,284
Business combinations (Note 7)	9,189,766	-
Additions and revisions	1,683,550	(218,093)
Liabilities settled	(74,160)	-
Accretion	301,162	16,832
<b>Balance, end of year</b>	<b>\$ 23,038,341</b>	<b>\$ 11,938,023</b>

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

## 13. Income Taxes

The reconciliation of the Corporation's tax provision computed at the combined 2021 Canadian federal and provincial statutory rate of 23% (2020 – 24%) to the reported tax provision (recovery) is as follows:

	2021	2020
Income (loss) for the year	\$ 4,349,802	\$ (11,728,262)
Expected tax provision (recovery)	1,000,000	(2,814,000)
Non-deductible expenses	72,000	27,000
Gain on settlement of debt	(422,000)	-
Share issue costs incurred	(93,000)	-
Other	(874,000)	-
Change in deferred tax benefits not recognized	317,000	2,787,000
Deferred tax provision (recovery)	\$ -	\$ -

### *Deferred income taxes*

Deferred income taxes are based on the differences between the accounting amounts and the related tax bases of the Company's assets and liabilities. The income tax rate used to calculate deferred income taxes is 23% (2020 - 23%).

	2021	2020
Property and equipment	\$ 1,131,000	\$ 2,570,000
Provision for decommissioning liabilities	5,299,000	2,746,000
Non-capital losses	737,000	1,485,000
Net capital losses	261,000	261,000
Share issue costs and other	61,000	113,000
Right-of-use asset and liability	3,000	-
Deferred tax benefits not recognized	(7,492,000)	(7,175,000)
Deferred income tax assets (liabilities)	\$ -	\$ -

At December 31, 2021, the Company has tax pools and non-capital losses as described below that are available to shelter future taxable income. The Company's non-capital losses expire between the years 2028 and 2040.

Non-capital losses	\$ 3,205,000
Capital losses	2,274,000
Share/debt issuance costs	691,000
Undepreciated capital cost	2,771,000
Canadian exploration, development and oil and gas property expenses	25,219,000
	\$ 34,160,000

## 14. Share Capital

### (a) Common shares

#### *Authorized*

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

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

## 14. Share Capital (continued)

*Issued*

	Number	Amount
Balance, December 31, 2020, and 2019	65,122,278	\$ 11,649,956
Issue of share capital (i)(ii)	41,700,000	902,000
Value allocated to warrants (i)(ii)	-	(382,199)
Flow-through premium liability (ii)	-	(17,000)
Vender Settlement (iii)	6,557,866	327,893
Share issuance costs	-	(28,169)
<b>Balance, December 31, 2021</b>	<b>113,380,144</b>	<b>\$12,452,481</b>

- (i) On May 21, 2021, the Corporation completed a non-brokered private placement of 40,000,000 common shares at a subscription price of \$0.02 per share for gross proceeds of \$800,000. Each unit of the offering is composed of one common share of the Corporation and one share purchase warrant. Each warrant entitles the holder to acquire one additional share in the capital of the Corporation at a price of five cents per warrant for a period of two years from the date the units are issued with acceleration provisions. The warrants have been valued at \$347,990 using the Black Scholes model. The Corporation paid finders fees of \$1,283 in cash, and issued 294,562 warrants valued at \$8,865, which are on the same terms as the warrants forming part of the units.
- (ii) On November 29, 2021, the Corporation completed a non-brokered private placement of 1,700,000 common shares at a subscription price of \$0.06 per share for gross proceeds of \$102,000. Each unit of the offering is composed of one common share of the Corporation and one share purchase warrant. Each warrant entitles the holder to acquire one additional share in the capital of the Corporation at a price of seven cents per warrant for a period of two years from the date the units are issued with acceleration provisions. The warrants have been valued at \$34,210 using the Black Scholes model. The Corporation issued 40,749 warrants valued at \$890, which are on the same terms as the warrants forming part of the units. A flow-through premium of \$17,000 has been recorded on the issuance.
- (iii) On November 1, 2021, the Corporation issued 6,557,867 common shares at \$0.05 per share to settle trade payables of \$1,147,627 resulting in a gain on settlement of \$819,734.

### (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
<b>Balance, December 31, 2019</b>	<b>\$ 0.07</b>	<b>13,245,000</b>	<b>\$ 297,834</b>
Issued	0.05	5,000,000	100,000
Expired	0.10	(11,735,000)	(243,193)
<b>Balance, December 31, 2020</b>	<b>\$ 0.07</b>	<b>6,510,000</b>	<b>\$ 154,641</b>
Issued on unit private placement	0.05	40,000,000	347,990
Issued on flow-through private placement	0.75	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)
<b>Balance, December 31, 2021</b>	<b>\$ 0.051</b>	<b>55,823,493</b>	<b>\$ 863,740</b>

# PROSPERA ENERGY INC.

Notes to the Financial Statements  
For the year ended December 31, 2021

## 14. Share Capital (continued)

### (c) 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
<b>Balance, December 31, 2020</b>	<b>4,550,000</b>	<b>0.06</b>
Granted	850,000	0.05
Expired	(1,650,000)	0.06
<b>Balance, December 31, 2021</b>	<b>3,750,000</b>	<b>0.05</b>

The range of exercise prices of the outstanding options and exercisable options as at December 31, 2021 were as follows:

Expiry date	Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price	Weighted-Average Contractual Life Remaining (Years)
December 22, 2026	500,000	-	\$0.05	4.98
June 30, 2026	350,000	-	\$0.05	4.50
December 31, 2025	2,100,000	-	\$0.05	4.00
June 30, 2025	800,000	800,000	\$0.05	3.50
<b>Total, December 31, 2021</b>	<b>3,750,000</b>	<b>800,000</b>	<b>\$0.05</b>	<b>4.07</b>

## 15. 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:

	2021	2020
Income for the year	\$ 4,349,802	\$ (11,725,557)
Number of common shares, January 1	65,122,278	65,122,311
Effect of common shares issued	33,010,677	-
Basis weighted average number of common shares	98,132,955	65,122,311
<b>Basic and diluted income (loss) per share</b>	<b>\$ 0.05</b>	<b>\$ (0.18)</b>

# PROSPERA ENERGY INC.

Notes to the Financial Statements  
For the year ended December 31, 2021

## 16. Related Party Transactions

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

- (a) During 2021, management, consulting and engineering fees of \$160,708 (2020 - \$48,000) were charged by an officer or director of the Corporation or by a Corporation controlled by an officer or director.
- (b) During 2021, salaries and wages of \$85,000 (2020 - \$nil) were paid to officers or directors of the Corporation.
- (c) During 2021, expenditures of \$786,625 (2020 - \$nil) were charged by an officer or director of the Corporation or by a Corporation controlled by an officer or director.
- (d) During 2021, 8,000,000 incentive warrants were issued to officers and directors of the Corporation or to Corporations controlled by officer or directors. The warrants were valued at \$283,255 using the Black Scholes model.
- (e) At December 31, 2021, \$101,426 was included in trade and other receivables owing from an officer or director of the Corporation or by a Corporation controlled by an officer or director.
- (f) At December 31, 2021, \$406,659 (2020 - \$12,000) is included in trade and other payables owing to officers and directors of the Corporation or to Corporations controlled by officer or directors.

## 17. 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 \$377,722 of salaries and benefits and \$nil consulting fees for management personnel which are included in general and administrative expenses for the year ended December 31, 2021 (2020 - \$192,000 of salaries and benefits and \$48,000 of consulting fees).

### (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:

	2021	2020
Consulting fees	\$ 160,708	\$ 48,000
Salaries and benefits	85,000	192,000
Share-based payments	289,195	111,024
	\$ 534,195	\$ 351,024

## 18. Supplemental Cash Flow Disclosure

The Corporation had the following non-cash transactions:

	2021	2020
Convertible debt issued for finders fees	\$ 285,000	\$ -
Revisions to decommissioning liabilities	1,683,550	(218,093)
Decommissioning liabilities assumed on business combination	9,189,768	-
Trade and other receivables settled on business combination	4,187,458	-
Trade and other payables settled on business combination	956,933	-
Right-of-use asset and liability	638,093	-

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

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## 19. 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 20). 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 December 31, 2021, the Corporation has a working capital deficiency of \$6,295,585 and an accumulated deficit of \$30,128,149. 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 December 31, 2021 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 December 31, 2021.

#### 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 December 31, 2021.

# PROSPERA ENERGY INC.

Notes to the Financial Statements

For the year ended December 31, 2021

## 19. Financial Risk Management and Capital Management (continued)

### 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. 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 (Note 11).

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 year ended December 31, 2021. The Corporation's working capital deficiency at December 31, 2021 was \$6,295,585 (2020 – \$8,838,501). The Corporation's accumulated deficit at December 31, 2021 was \$30,128,149 (2020 – \$34,477,951).

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.

## 20. Petroleum and Natural Gas Sales

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

	<b>2021</b>	2020
Petroleum	\$ <b>4,361,801</b>	\$ 3,194,817
Natural gas	<b>48,960</b>	80,691
	<b>\$ 4,410,761</b>	<b>\$ 3,275,508</b>

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 year ended December 31, 2021, 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 year ended December 31, 2021

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## 21. 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 has accrued \$155,000 in the financial statements, which is included in trade and other payables, in relation to these claims.

## 22. Subsequent Events

- (a) In April 2022 the Corporation secured a letter of intent (LOI) for an adjacent (strategic fit) heavy oil property similar to the current three Saskatchewan assets. The Corporation also executed a commitment letter to acquire a proximal light oil play with a development plan to increase production by 1,000+ bpd.
- (b) On May 19, 2022, the Corporation completed a tranche of its previously announced non-brokered private placement of \$738,573 in convertible debenture units. The debentures will bear interest of 8% per annum for a term of two years and can be converted into common share units of the Company at a conversion price of \$0.05 in the first year and \$0.10 in the second year. Each of these units consists of one common share and one common share purchase warrant. Each warrant is exercisable at \$0.075 for a period of two years from the date of closing. The Corporation raised an additional tranche of non-brokered private placement proceeds of \$740,000 through the issuance of 9,866,667 units at \$0.075. Each unit consists of one common share and one common 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.
- (c) The Corporation has been working closely with the Saskatchewan Government regarding its Licensee Liability Rating Program (LLR). The Corporation has communicated its strategy to increase its LLR rating to a factor of 1 or greater to avoid additional deposit requirements. The Saskatchewan MER has tentatively accepted the Corporation's LLR plan and has stated its intention to review again at the end of June 2022.