

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Prospera Energy Inc. ("Prospera", the "Company", or the "Corporation") for the three months ended March 31, 2022, and should be read in conjunction with the Company's interim financial statements and related notes for the same three months ended, (the "Interim Financial Statements"). The Financial Statements have been prepared in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures, numerical references and Oil and Gas advisories which can be found at the beginning of this MD&A. This MD&A is dated and was prepared using available information as of July 7, 2022.

Forward Looking Statements

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

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

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

Additional Information

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

Oil and Gas Advisory

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

Numerical References

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

Non-GAAP Measures

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

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

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

"Operating netback" is equal to petroleum and natural gas sales before financial instruments and bad debt

expenses minus royalties, operating charges, and transportation costs. Management uses this metric to measure the discrete operating results of its oil and gas properties.

"Current ratio" is defined as current assets as defined by IFRS, (excluding hedging gains and/or losses)) divided by current liabilities as defined by IFRS (but excluding any portion of the Credit Facility), to the extent that it is not past due, and unrealized hedging gains and /or losses).

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

Business Overview

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

The Corporation was incorporated on April 14, 2003, under the Canada Business Corporations Act ("CBCA"). The Corporation's shares initially began trading on the TSX Venture Exchange under the trading symbol "ORR" on March 29, 2005 and on the Frankfurt Exchange under the trading symbol "OF6" on June 21, 2006. On August 25, 2008, the Corporation's name was changed to "Georox Resources Inc." and the TSX Venture Exchange trading symbol changed to "GXR". On June 28, 2018 the Corporation changed its name to "Prospera Energy Inc. and the TSX Venture Exchange symbol changed to "PEI".

Quarter Overview

In the first quarter of 2022 PEI continued to execute its first phase of restructuring to be profitable for all stakeholders. During the quarter the corporation successfully achieved a positive EBITDA, raised \$1.5 million through two private placements, realized steady production, and continued to reduce outstanding property tax, trade payable and other historical arrears. Overall, PEI continues to improve its financial position and liquidity while positioning the Corporation for accelerated growth and development. During the quarter the Corporation effectively:

- Clean Safety Scorecard: zero reported safety and near miss incidents
- Achieved Revenue of \$3.5 million CAD and a production rate of 475 boe/d in Q1 2022;
- Realized average pricing of \$81.07/boe in Q1 2022 vs. \$47.22/boe in Q1 2021
- Reporting positive operating netback of \$1.1 million (\$25.21/boe), \$10.50/boe after G&A + Interest
- Achieved positive EBITDA of \$195,590 in Q1 of 2022, compared to an EBITDA of -\$209,276 in Q1 of 2021
- Raised \$1,478,573 through share and convertible debt private placements
- Continued to improve the balance sheet by reducing short term and ARO liabilities
- Completed initial planning, engineering & procurement of the Saskatchewan horizontal well program; commercial demonstration program was executed in Q2 2022.

Operating Results Summary

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

	Q1 2022	Q1 2021
Crude Oil		
West Texas Intermediate monthly average (U.S. \$/Bbl)	94.29	57.79
Canadian Light Suite monthly average (Cdn\$/Bbl)	115.66	63.17
Natural Gas		
NYMEX (Henry Hub close) monthly average (U.S.\$/MMBtu)	4.66	3.56
AECO monthly average (Cdn\$/GJ)	4.74	2.62
Canada – U.S. dollar closing exchange rate		
(Cdn\$/U.S.\$1)	1.27	1.27

Funds Flow from Field Operations per Boe

The following table summarizes revenues and costs for the following periods:

Per Unit of Sales Volume	Mach 31, 2022	March 31, 2021
(Dollar per Boe)		
Sales	81.07	47.22
Royalties	(9.16)	(3.13)
Operating cost	(46.70)	(37.93)
Operating netback	25.21	(6.16)
Interest and financing charge	(4.33)	-
General and administrative expense	(10.38)	(17.70)
Funds flow from operations	10.50	(11.54)

Field Operating Income Items

Production Summary of Q1 2022 and 2021

	Q1 2022	Q1 2021	Increase (Decrease)	
			Value	%
Average sales volumes:				
Natural gas (Mcf/d)	46	30	16	52 %
Oil and condensate (Bbl/d)	467	153	314	205 %
Total Net (Boe/d)	475	158	317	200 %
Liquids Composition (percentage)	98%	97%	2%	2 %
Average realized prices				
Natural gas (\$/Mcf)	4.40	2.91	1	51%
Oil (\$/Bbl)	81.96	48.21	34	70%
Average realized price (\$/Boe)	81.07	47.22	34	72%
Operating netback				
Natural gas	18,052	7,977	10,075	126 %
Oil	3,444,996	665,171	2,779,825	418 %
Total petroleum and natural gas sales	3,463,047	673,148	2,789,899	414 %
Royalties	(391,498)	(44,562)	(346,936)	779 %
Operating costs	(1,994,809)	(538,039)	(1,456,770)	271 %
Operating netback	1,076,740	90,548	986,192	1089 %

Production – the Corporation averaged 475 boe/d in Q1 of 2022, an increase of 200% from Q1 2021 levels. The higher production is the result of the recent working interest acquisitions in existing properties, and the effects of workover and production optimization on existing wells.

Petroleum and Natural Gas Sales – Oil and gas revenues increased by \$2,789,899 in Q1 2022 due to increased global petroleum prices and increased production.

Royalties – Royalties and the related effective rate increased in Q1 2022 to 11.3%. This increase from 5.5% in Q1 2021 is the result of market wide increasing oil prices and improved economic conditions.

Operating Costs – Operating costs overall were higher in Q1 2022 as compared to Q1 2021 due to an increase in working interest in the Saskatchewan properties and higher production.

Acquisitions and Dispositions

Net Working Interest	March 31, 2022	December 31, 2021
Poucecoupe	52%	52%
Cuthbert	69%	69%
Heart Hills	83%	83%
Luseland	83%	83%
Red Earth	100%	100%
Other	100%	100%

There were no acquisitions finalized in the first quarter of 2022.

Depletion, Depreciation, and Impairment Expense

Twelve Months Ended:	March 31, 2022	March 31, 2021
Reported amount	(539,053)	(69,334)
Expense per sales volume (\$/Boe)	(12.62)	(4.86)

General and Administrative Expenses

Twelve Months Ended	March 31, 2022	March 31, 2021
General and Administrative	(443,250)	(323,429)
Overhead recoveries and reclassifications to operating costs	-	(71,074)
Reported amount	(443,250)	(252,355)
Expense per sales volume (\$/Boe)	(10.38)	(17.70)

Share Based Compensation

Twelve Months Ended:	March 31, 2022	March 31, 2021
Reported amount	(8,394)	-
Expense per sales volume (\$/Boe)	(0.20)	-

Interest, Financing, and Accretion Charges

Twelve Months Ended:	March 31, 2022	March 31, 2021
Accretion on decommissioning and restoration liability	(93,281)	(44,768)
Interest and other finance costs, net	(185,108)	-
Expense per sales volume (\$/Boe)	(6.52)	(3.14)

Accretion charges increased in Q1 2022 as a result of higher working interest and related decommissioning and restoration liabilities associated with the passage of time.

Interest expense increased in Q1 2022 because of convertible debt issued in the previous the year.

Liquidity and Capital Resources

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

As at:	March 31, 2022	December 31, 2021
Current liabilities net of current assets	6,041,234	6,295,585
Shareholders deficiency	30,758,394	30,128,149
	33,910,936	36,423,734

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 March 31, 2022, the Corporation has a working capital deficiency of \$6,041,234 (December 31, 2021 – \$6,295,585), and an accumulated deficit of \$30,758,394 (December 31, 2021 – \$30,128,149). By paying off debt in 2021, the corporation had drastically decreased its risk to meet its financing obligations on outstanding interest or principal balances on credit facilities in Q1 2022. By reducing trade payables and other debt obligations, the corporation has greatly reduced its liquidity concerns.

Working Capital

The working capital deficiency has been funded by cash flow from operations and cash raised through private placements. Fluctuations in Prospera's working capital deficit arises primarily on production levels, commodity price changes, and capital expenditure levels.

Convertible Debt

The Corporation completed two unbrokered private placements in the first quarter of 2022, raising total proceeds of \$1,478,573. Of this, \$738,573 is debenture investments and \$740,000 is unit investments.

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

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

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

Shares, Options and Rights

The following provides a continuity of outstanding share capital:

	Common Shares	Share Capital
Balance at December 31, 2021	113,380,145	\$12,469,481
Issuance of shares (debenture conversion)	23,363,508	1,095,410
Issuance of shares (warrant execution)	23,363,508	230,084
Balance at March 31, 2022	139,095,336	\$13,777,975

Provision for Decommissioning

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 \$22,975,126 (Dec 31, 2021 – \$23,038,341)
- Annual inflation rate of 4% for 2022 & 2023; 2024+ 2% (2020 – 1.5%)
- Settlement of the liability occurring in approximately 1 to 15 years (2020 – 1 to 15 years)

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

	March 31, 2022	December 31, 2021
Balance, beginning of year	\$ 23,038,341	\$ 11,938,023
Business combinations (Note 7)	-	9,189,766
Additions and revisions	-	1,683,550
Liabilities settled	(156,496)	(74,160)
Accretion	93,281	301,162
Balance, end of year	\$ 22,975,126	\$ 23,038,341

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 \$18,138 (2020 - \$66,000) were charged by an officer or director of the Corporation or by a Corporation controlled by an officer or director.
- (b) During Q1 2022, salaries and wages of \$30,000 were paid to officers or directors of the Corporation.
- (c) During Q1 2022, expenditures of \$195,618, were charged by an officer or director of the Corporation or by a Corporation controlled by an officer or director.
- (d) At March 31, \$198,661 is included in trade and other payables owing to officers and directors of the Corporation or to Corporations controlled by officer or directors.

Personnel Expenses

(a) Salaries, benefits and consulting fees

The Corporation's statement of loss and comprehensive loss is prepared primarily by nature of expense, with the exception of \$30,000 of salaries and benefits and \$18,138 of consulting fees for management personnel which are included in general and administrative expenses for the quarter ended March 31, 2022 (2021 – \$0 of salaries and benefits and \$66,000 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:

Three months-ended March 31			
		2022	2021
Consulting fees	\$	18,138	\$ 66,000
Salaries and benefits		30,000	-
Share-based payments		-	-
	\$	48,138	\$ 66,000

Critical Accounting Estimates

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

New Accounting Pronouncements

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

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

Lessee

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

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

Lessor

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

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

Adoption

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

- to rely on its previous assessment of whether leases are onerous by applying IAS 37 – Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- to apply a single discount rate to a portfolio of leases with similar characteristics;
- to account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and
- to account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of a low dollar value, as defined by IFRS 16.

Business Risks and Uncertainties

The 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.

Going Concern

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.

The current world-wide economic environment relating to the oil and gas industry has improved access to capital for many companies, including the Corporation. This has resulted in fund raising opportunities for the Corporation. Furthermore, there is potential that future commodity prices and the world-wide economic environment relating to the oil and gas industry, in general, will remain uncertain for an extended period of time and the Corporation will need to negotiate with its creditors to improve payment terms and/or pursue some form of asset sale, equity financing or other capital raising effort in order to fund its operations during the next twelve months. To that end, the Corporation is currently, and will continue, on an ongoing basis, examining alternative sources of capital, including potential debt and equity financing and ways to monetize its assets, including, without limitation, asset sales or swaps, joint ventures, corporate mergers or acquisitions, farmouts or other transactions with industry partners, all with a view to enhancing

liquidity and meeting commitments. The need to raise capital or defer expenditures to fund ongoing operations creates uncertainty that may cast doubt over the Corporation's ability to continue as a going concern. There is no certainty that these and other strategies will be sufficient to permit the Corporation to continue as a going concern.

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

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

Commodity Price Risk

The nature of the Corporation's operations results in exposure to commodity fluctuations. The Corporation closely monitors commodity prices to determine the appropriate course of action to be taken by the Corporation. A material change in prices of commodities affected the Corporation's borrowings, ultimately affecting the raising of equity financing. The Corporation does not hedge commodity price risk and has no physical forward price or financial derivative sales contracts as at or during the three months ended March 31, 2022. Although improved, petroleum prices are expected to remain volatile for the near future as a result of the market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions, regional conflicts and the ongoing global credit and liquidity concerns.

Operational Dependence

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

Regulatory Compliance

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

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial, and local laws and regulations. Environmental legislation provides

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

The Corporation anticipates making capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future to replace reserves.

If the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs.

In addition, uncertain levels of near-term industry activity expose the Corporation to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes including repayment of loan facilities when due or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation.

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

Dilution

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

Conflicts of Interest

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

Legal, Environmental, Remediation and other Contingent Matters

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

Management's Responsibility for Financial Statements

The information provided in this MD&A and the Corporation's financial statements is the responsibility of management. In the preparation of this information, estimates are sometimes necessary to determine future values for certain assets or

liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Corporation's assets are safeguarded and to facilitate the preparation of relevant and timely disclosure information.

Directors:

Samuel David (President & CEO), Calgary, AB, Canada
Mel Clifford (Chairman of the Board), Kelowna, BC, Canada
Jasdip Dhaliwal, Calgary, AB, Canada
Brian McConnell, Calgary, AB, Canada
Mark Lacey, Red Deer, AB, Canada

Officers:

Matthew Kenna (Chief Financial Officer), Calgary, Alberta
Chris Ludtke (VP of Finance & Accounting), Calgary, AB, Canada
George Magarian (VP Subsurface), Calgary, AB, Canada

Other:

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Transfer Agent: Computershare Trust Company of Canada -
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