



PROSPERA ENERGY INC.

**Q1 2024 Quarter End
Financial Statements**

**March 31, 2024 and
December 31, 2023**

(in Canadian dollars)

FINANCIAL STATEMENTS

Statement of Financial Position	3
Statement of Net Income (Loss) and Comprehensive Income (Loss)	4
Statement of Changes in Equity (Deficit)	5
Statement of Cash Flow	6
Notes to Financial Statements	7 - 30

PROSPERA ENERGY INC.**Statement of Financial Position****Three Months ended March 31, 2024 and Twelve Months Ended December 31, 2023**

ASSETS	Note	March 31, 2024	December 31, 2023
Current Assets			
Cash		\$ 26,600	\$ 118,933
Trade and other receivables	5	2,894,087	3,244,596
Prepaid expenses and deposits		616,403	548,443
Inventory		642,475	521,426
Total current assets		4,179,565	4,433,398
Non-current assets			
Trade and other receivables	5, 16	3,606,803	4,387,826
Deposits		1,025,370	1,015,400
Property and equipment	7	39,875,976	38,827,883
Right-of-use	7	464,273	503,807
Total assets		49,151,987	49,168,314
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables	8, 16	20,564,976	20,490,775
Flow-through share premium		17,000	17,000
Due to related party	16	1,090,750	1,090,750
Deferred subscription proceeds		15,000	15,000
Current portion of CEBA loan		18,690	30,000
Current portion of lease liability	9	265,772	266,632
Total current liabilities		21,972,188	21,910,157
Non-current liabilities			
Decommissioning liabilities	13	16,797,534	16,810,503
Promissory note	11	3,784,775	3,723,102
GORR Financing	12	3,147,803	3,033,324
Convertible debt	10	2,050,689	1,984,887
Lease liabilities	9	464,058	503,808
Total liabilities		48,217,047	47,965,781
Shareholders' Equity			
Share capital	14	30,881,163	30,516,664
Share purchase warrants	14	1,623,199	1,623,199
Contributed surplus		4,583,573	4,558,506
Equity portion of convertible debt		28,151	28,151
Deficit		(36,181,146)	(35,523,987)
Total shareholders' equity (deficit)		934,939	1,202,533
Total liabilities and shareholders' equity		\$ 49,151,987	\$ 49,168,314

Going Concern (Note 2)

Contingencies (Note 19)

ON BEHALF OF THE BOARDSigned "Samuel David", DirectorSigned "Mel Clifford", Director

The accompanying notes are an integral part of these financial statements

PROSPERA ENERGY INC.
Statement of Income (Loss) and Comprehensive Income (Loss)
Three Months Ended March 31, 2024, and 2023

			Three months ended March 31,	
	Note		<u>2024</u>	<u>2023</u>
Revenue Metrics				
Gross sales (boe/d)			935	363
Net working interest sales (boe/d)			640	295
Price (\$/boe)		\$	67.48	58.87
Revenues				
Petroleum and natural gas sales	18	\$	4,180,901	1,562,012
Royalties			(286,480)	(188,727)
Net Revenue			3,894,422	1,373,285
Expenses				
Operating			2,254,599	1,922,904
General and administrative	16		1,079,915	446,221
Total Expenses			3,334,515	2,369,125
Operating income (loss)			559,907	(995,840)
Finance expense			344,661	117,091
Income (loss) all cash items			215,246	(1,112,931)
Share based compensation			25,067	17,788
Depletion and depreciation	7		725,201	276,881
Accretion			146,527	174,885
Gains			(24,391)	(11,371)
Income (loss) and comprehensive income (loss)			(657,157)	(1,571,114)
Income (loss) per share	15	\$	(0.00)	(0.01)

PROSPERA ENERGY INC.
Statement of Changes in Equity (Deficit)
Three Months Ended March 31, 2024 and 2023

	Three months ended March 31,	
	2024	2023
Share capital		
Balance December 31	\$ 30,516,664	\$ 17,189,373
Private placement of common shares	-	804,517
Warrants exercised	6,724	5,575,656
Shares issued on debt conversion	-	482,143
Shares issued on settlement of debt	357,775	-
Share issuance costs	-	(47,304)
Balance March 31	30,881,163	24,004,385
Share purchase warrants		
Balance December 31	1,623,199	2,875,863
Warrants exercised	-	(1,116,391)
Warrants issued on private placement	-	509,483
Warrants issued on debt conversion	-	241,192
Balance March 31	1,623,199	2,510,147
Contributed surplus		
Balance December 31	4,558,506	4,059,783
Stock based compensation	25,067	17,788
Balance March 31	4,583,573	4,077,571
Equity portion of convertible debt		
Balance December 31	28,151	27,262
Conversion of convertible debt (equity portion)	-	7,600
Issuance of convertible debt (equity portion)	-	-
Balance March 31	28,151	34,862
Deficit		
Balance December 31	(35,523,987)	(30,352,020)
Income (loss) for the Quarter	(657,157)	(1,571,114)
Balance March 31	(36,181,146)	(31,922,635)
Total shareholders' equity (deficiency)	\$ 934,939	\$ (1,295,670)

PROSPERA ENERGY INC.
Statement of Cash Flow
Three Months Ended March 31, 2024 and 2023

		Three months ended March 31,	
	Note	2024	2023
Cash flows provided by (used in) operating activities			
Income (loss) for the period		\$ (657,157)	\$ (1,571,114)
Items not affecting cash:			
Depletion and depreciation	7	725,201	276,881
Accretion		146,527	174,885
Stock based compensation		25,067	17,788
Right of use asset		(40,610)	-
Finance expense		344,661	117,091
Change in non-cash working capital:			
Trade and other receivables		(57,220)	(976,587)
Prepaid expenses and deposits		(77,929)	30,223
Inventory		(121,049)	-
Trade and other payables		506,712	(3,473,633)
Net cash flows provided by (used in) operating activities		794,201	(5,404,465)
Cash flows provided by (used in) financing activities			
Proceeds from warrant exercises		6,724	4,459,265
Proceeds from promissory note		-	-
Proceeds from GORR financing		1,000,000	-
Proceeds from share issuance		-	1,005,929
Repayment of cash held from debenture sale		-	(524,388)
Interest paid		-	(12,971)
Deferred subscription and warrant proceeds		-	2,123,856
Net cash flows provided by (used in) financing activities		1,006,724	7,051,692
Cash flows provided by (used in) investing activities			
PP&E expenditures		(1,893,257)	130,295
Decommissioning liabilities settled		-	(74,904)
Net cash flows provided by (used in) investing activities	7	(1,893,257)	55,391
Change in cash		(92,332)	1,703,115
Cash, beginning of quarter		118,933	1,050,960
Cash, end of quarter		\$ 26,600	\$ 2,754,075

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

1. GENERAL

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

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

2. GOING CONCERN

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

As of March 31, 2024, the Corporation has a working capital deficiency of \$17,792,623 (December 31, 2023 – \$17,476,760), and an accumulated deficit of \$36,181,146 (December 31, 2023 – \$35,523,987).

There is a material risk that the Corporation will be unable to meet its payable obligations as they become due. Management continually monitors and updates the Corporation’s financing requirements and is engaged in discussions with existing shareholders and creditors on proposed transactions and agreements in order to reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures and satisfy obligations as they become due.

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, 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 geopolitical issues have 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. These issues remain dynamic and the ultimate duration and magnitude of the impact on the economy and financial effect on the Company is not known at this time.

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

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

3. BASIS OF PREPARATION

a. Financial statements of compliance

These interim financial statements of the Corporation have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”). These interim financial statements do not include all the information required for full annual statements and should be read in conjunction with Corporation’s annual statements for the year ended December 31, 2023.

The financial statements were approved and authorized for issuance by the Corporation’s Board of Directors on May 29, 2024.

b. Basis of measurement

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

c. Presentation and functional currency

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

d. Use of judgments and estimates

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

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

Critical accounting judgments

Business combinations

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

Cash-generating units

The Corporation’s assets are aggregated into cash-generating units (“CGUs”) based on an assessment of the unit’s ability to generate independent cash in-flows. The determination of the Corporation’s CGUs was based on management’s judgment 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, Red Earth and Brooks 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 statements regarding going concern is outlined in Note 2.

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

3. BASIS OF PREPARATION (*continued*)

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

Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the statement of income (loss) and comprehensive income (loss) and is also a key determinant in assessing whether the carrying value of any of the Corporation's petroleum and natural gas assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows. The Corporation's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

Business combinations

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

Carrying value of non-financial assets

If any indication exists that an asset or CGU may be impaired, the Corporation estimates the recoverable amount. The recoverable amounts of individual assets and CGUs have been determined based on the greater 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 statements and calculations and are subject to change over time and may have a material impact on the financial statements.

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

3. BASIS OF PREPARATION (*continued*)

Deferred taxes

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

Stock options and share purchase warrants

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Joint arrangements

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

B. Cash

Cash consists of cash deposits held in Canadian banks. The Corporation does not have any cash equivalents as of March 31, 2024 and 2023.

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. The 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

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

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

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

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

Impairment

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

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

using the present value of the expected future cash flows. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Goodwill impairments are not reversed.

F. Provision for decommissioning liabilities

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

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

G. Income taxes

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

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

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

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

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

accounts on a reasonable basis. The fair value of share purchase warrants is measured at the date of issuance using the Black-Scholes pricing model taking into account the terms and conditions upon which the share purchase warrants were issued. Share purchase warrants classified as equity instruments are not subsequently re-measured for changes in fair value.

J. Share-based payments

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

K. Financial instruments

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

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

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

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, trade and other payables, credit facilities, convertible debt, and director's loan. 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

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

comprehensive income (loss).

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

- Financial assets at FVOCI

Financial assets at FVOCI are measured at fair value, and changes therein are recognized in other comprehensive income. A financial asset is classified as FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial instruments at amortized cost

The Corporation classifies cash, trade and other receivables, trade and other payables, 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 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

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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 date, the DSU liability is adjusted based on the market price of the Corporation's common shares on the period end date.

N. Per share amounts

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

O. Revenue recognition

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

P. Leases

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

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

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

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

income (loss) that reflects the proportionate decrease in scope.

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

Q. Changes in accounting standards

New standards and policies adopted in 2023

The corporation included a revenue and royalty accrual for December 2023 production (along with 2023 actual revenue/royalties) in the December 2023 financial results which is consistent with IFRS 15 and IAS 18.

Future Accounting Standards and Pronouncements

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

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). These amendments are effective for reporting period beginning on or after January 1, 2022. These amendments are not expected to have a material impact on the Corporation's consolidated financial statements upon adoption.

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

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2023.

R. 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 statements about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

I. Financial instruments

The fair values of cash, trade and other receivables, trade and other payables, credit facilities, and convertible debt approximated their carrying amount at March 31, 2024 and 2023, 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 statements 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 Financial Statements
Three Months Ended March 31, 2024

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*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.

II. 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:

	Q1 2024	2023
	Stock Options and Warrants	Stock Options and Warrants
Expected volatility	91.78% - 122.49%	91.78% - 122.49%
Risk-free rate	3.79% - 4.25%	3.79% - 4.25%
Expected life	1 - 5 years	1 - 5 years
Expected dividend yield	0%	0%
Forfeiture rate	0%	0%

5. TRADE AND OTHER RECEIVABLES

The Corporation's trade and other receivables are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Corporation's trade and other receivables include amounts due from the sale of petroleum and natural gas. The Corporation's maximum exposure to credit risk at March 31, 2024 is in respect of \$6,500,890 (December 31, 2023 - \$7,632,422) of trade and other receivables.

The Corporation's trade and other receivables consist of:

	March 31, 2024	December 31, 2023
Current	\$ 2,894,087	\$ 3,244,596
Non-current	3,606,803	4,387,826
Trade receivables	\$ 6,500,890	\$ 7,632,422

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

	March 31, 2024	December 31, 2023
0 to 60 days	\$ 2,894,087	\$ 2,296,139
61 to 90 days	103,895	32,119
Over 90 days	3,502,908	5,304,164
	\$ 6,500,890	\$ 7,632,422

The majority of receivables over 90 days are held by working interest owners. The Corporation can withhold working interest net profits or exercise available recourse mechanisms involving the reduction of the joint venturer's working interest pursuant to the underlying Joint Operating Agreements as payments against these receivables.

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

6. BUSINESS COMBINATIONS

(a) 50% Working Interest Acquisition (2022)

On April 25, 2022, the Corporation agreed to purchase an undivided 50% working interest in petroleum lands located near Cassils, Alberta for \$2,483,500 payable by way of the issuance of convertible debt and a promissory note that will be settled in equal amounts of cash and common shares of the Corporation. The vendor in this transaction was a private Alberta corporation of which Samuel David, the president of the Corporation, has an ownership interest. 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	\$ 2,587,533
Provision for decommissioning liabilities	(104,033)
Total net assets acquired	2,483,500
Consideration:	
Due to related party	2,181,500
Prospera convertible debt	302,000
Total purchase price	\$ 2,483,500

(b) 8.8% Working Interest Acquisition (2023)

On May 24, 2023, the Corporation agreed to purchase an undivided 8.8% working interest in petroleum lands located near Pouce Coupe, Alberta for \$20,000 paid in full in cash. 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	\$ 27,458
Provision for decommissioning liabilities	(7,458)
Total net assets acquired	20,000
Consideration:	
Cash	20,000
Total purchase price	\$ 20,000

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

6. BUSINESS COMBINATIONS (*continued*)

(c) **50% Working Interest Acquisition (2023)**

On May 31, 2023, the Corporation agreed to purchase an undivided 50% working interest in petroleum lands located near Pouce Coupe, Alberta for \$200,000 paid in full in cash. 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	\$ 234,691
Provision for decommissioning liabilities	(34,691)
Total net assets acquired	200,000

Consideration:

Cash	200,000
Total purchase price	\$ 200,000

The estimated fair value of the petroleum and natural gas assets acquired 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 liabilities 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 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 for the periods from the acquisition date nor the annual impact had the acquisitions occurred on January 1, 2022. As such, disclosure has not been provided which represents a departure from IFRS.

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

7. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas assets	Right of use assets
Balance at December 31, 2022	\$ 44,908,634	\$ 830,203
Additions	15,477,110	-
WI Acquisitions	220,000	-
Revisions to decommissioning liabilities	(2,765,277)	-
Balance at December 31, 2023	\$ 57,840,467	\$ 830,203
Additions	1,725,299	-
Balance at March 31, 2024	\$ 59,565,765	\$ 830,203

	Accumulated depletion, depreciation, and impairment	
Balance at December 31, 2022	\$ 15,924,048	\$ 168,262
Depletion and depreciation	2,917,593	158,134
Impairment	170,943	-
Balance at December 31, 2023	\$ 19,012,584	\$ 326,396
Depletion and depreciation	677,205	39,533
Balance at December 31, 2023	\$ 19,689,789	\$ 365,930

Net carrying amount

December 31, 2023	\$ 38,827,883	\$ 503,807
March 31, 2024	\$ 39,875,976	\$ 464,273

At March 31, 2024, future development costs of \$22,736,600 (2023 - \$22,736,600) associated with proved and probable reserves are included in costs subject to depletion.

During the quarter ended on March 31, 2024, and year ended December 31, 2023, the Corporation recognized the following impairment charge:

	Q1 2024	2023
Petroleum and natural gas assets	\$ -	\$ 170,943

At December 31, 2023, the Corporation tested its petroleum and natural gas CGUs for impairment. The fair value less costs to dispose of the Saskatchewan CGU exceeded its carrying value which resulted in neither an impairment charge or reversal (2022 – \$nil). The fair value less costs to dispose of the Red Earth CGU was less than its carrying value resulting in an impairment of \$869,037 (2022 – impairment reversal of \$2,282,998). The fair value less costs to dispose of the Pouce Coupe and Brooks CGU exceeded their carrying values which resulted in impairment reversals of \$163,863 and \$534,231 respectively (2022 – Pouce Coupe – impairment reversal of \$118,160; Brooks – impairment of \$1,574,620). Future development costs of \$35,476,200 (2022 - \$22,736,600) were included in the impairment assessments.

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

7. PROPERTY, PLANT AND EQUIPMENT (*continued*)

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, 2023 recoverable amounts, future cash flows were adjusted for risks specific to the CGUs and discounted using a discount rate of 12% (2022 – 12%).

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 income. A three percent increase in the assumed discount rate would result in approximately \$724,000 (2022 - \$571,000 of an impairment reversal reduction) of an increase to the impairment charge.

The following table provides the forecast benchmark commodity prices used in the December 31, 2023 reserve calculations.

Year	Light Oil CDN\$/BBL	Heavy Oil CDN\$/BBL	Natural Gas CDN\$/MCF
2024	\$93.83	\$78.83	\$2.25
2025	\$95.50	\$80.50	\$3.35
2026	\$97.00	\$82.00	\$4.00
2027	\$98.94	\$83.94	\$4.08
Escalation rate	2% + per year	2% + per year	2% + per year

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

8. TRADE AND OTHER PAYABLES

The Corporation's trade and other payables consist of:

	March 31, 2024	December 31, 2023
Trade and other payables	\$ 16,603,902	\$ 18,138,316
Accrued liabilities and other payables	3,961,074	2,352,459
	\$ 20,564,976	\$ 20,490,775

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

9. LEASE LIABILITY

	March 31, 2024	December 31, 2023
Beginning Balance	\$ 770,440	\$ 906,924
Payments and interest accretion	(40,395)	(136,484)
	730,045	770,440
Less: current portion	(265,772)	(266,632)
Ending Balance (non-current portion)	\$ 464,273	\$ 503,808

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

Payments and accretion expense of \$40,395 (2023 - \$136,484) was recorded as finance charges in the statement of income (loss) and comprehensive income (loss).

10. CONVERTIBLE DEBT

	Q1 2024	2023
Opening balance	\$ 1,984,887	\$ 3,289,997
Interest expense	65,802	283,258
Equity component of convertible debt	-	13,890
Amortization of transaction costs	-	28,723
Transfer of accrued interest to trade and other payables	-	(155,646)
Conversion of debentures	-	(1,475,335)
Ending Balance	\$ 2,050,689	\$ 1,984,887

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

11. PROMISSORY NOTES

In 2023, Prospera Energy closed two non-brokered private placements for total proceeds of \$3,598,000, with the summary and terms of the financings as follows:

Private Placement		2023
Debt Investment with Equity Bonus – 8%	\$	3,015,000
Debt Investment with Equity Bonus – 14%		583,000
Total	\$	3,598,000

Debt Investment with Equity Bonus – 8% Offering

Issuer:	Prospera Energy Inc. (“ Prospera ” or the “ Company ”).
Issue:	Non-brokered private placement of \$3,015,000, by the issue of 3,015 units (the “Units”) at \$1,000 per Unit. Each Unit consists of 1,000 Common Shares and one 8% 2-year non-convertible promissory note in the principal amount of \$1,000. Holders will be paid interest of 8% per annum, with interest payments to be made quarterly for a term of 2 years.
Offering Amount:	Up to \$5,000,000.
Underlying Shares:	Common shares of the Company listed on the TSX Venture Exchange under the symbol PEI (the “ Common Shares ”).
Use of Proceeds:	Prospera intends to use the net proceeds of the Offering for infrastructure upgrades to accommodate further production growth, well development capital, well abandonment costs, ongoing ESG initiatives and general working capital.
Offering Basis:	Private placement debt offering with equity bonus

Since the completion of the offering, Prospera received appeal from all investors to let interest accumulate over the two years until date of maturity. The interest will be compounded quarterly and be paid in full at maturity, with the principal balance.

Debt Investment with Equity Bonus – 14% Offering

Issuer:	Prospera Energy Inc. (“ Prospera ” or the “ Company ”).
Issue:	Non-brokered private placement of \$583,000, by the issue of 583 units (the “Units”) at \$1,000 per Unit. Each Unit consists of 1,000 Common Shares and one 14% 2-year non-convertible promissory note in the principal amount of \$1,000. Holders will be paid interest of 14% per annum, with interest payments to be made quarterly for a term of 2 years.
Offering Amount:	Up to \$3,000,000
Underlying Shares:	Common shares of the Company listed on the TSX Venture Exchange under the symbol PEI (the “ Common Shares ”).
Use of Proceeds:	Prospera intends to use the net proceeds of the Offering for development capital (drilling & optimization) - including partner portion, well abandonment & reclamation costs, ongoing ESG initiatives and general working capital.
Offering Basis:	Private placement debt offering with equity bonus.

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

12. GORR FINANCING

In 2023 Prospera Energy closed a Gross Overriding Royalty (“GORR”) Agreement for the sale of 1% royalty on revenue from Cuthbert properties for total proceeds of \$3,000,000, with the summary and terms of the financings as follows:

Private Placement	Investment Amount
GORR Financing	\$ 3,000,000

PEI signed an arms-length Purchase and Sale, Overriding Royalty Agreement, and Agreement to Purchase Royalty, all dated November 17, 2023, for the sale of 1% royalty on Prospera's revenue from its Cuthbert properties. \$1,000,000 was received at closing, \$1,000,000 within 10 days of closing, and \$1,000,000 within 10 days from the first date of production of wells #8 and #9 in PEI's drilling program. PEI has the right of first refusal to repurchase the royalty back for \$3,480,000 no later than November 30, 2025. If PEI purchases the GORR prior to October 1, 2024, the purchase price shall be \$3,430,000.

If closing occurs after November 30, 2024, and if royalty payments for any quarter do not exceed \$250,000 per quarter prior to the closing date, the purchase price will increase by \$139,200 for each of those quarters where the royalty payments were less than \$250,000 per quarter. The initial royalty rate of 1% up to and including November 30, 2024, increases to 22% after November 30, 2024, if the royalty interest has not been repurchased. Failure to remit royalty payments will result in the Company paying, in addition to those funds, interest at 18% per annum, compounded monthly.

13. DECOMMISSIONING LIABILITIES

The Corporation's provision for decommissioning as at March 31, 2024 and December 31, 2023 is based on the following estimates and assumptions:

- Total discounted future cash flows of \$16,797,534 as of March 31, 2024 (December 31, 2023 - \$16,810,503)
- Annual inflation rate of 3.4% for 2024, 2% thereafter; (2023 – 3.4% for 2024, 2% thereafter).
- Settlement of the liability occurring in approximately 1 to 15 years (2023 - 1 to 15 years).

Risk free discount rates ranging from 3.47% to 4.26% (2023 – 3.47% to 4.26%)

	Q1 2024	2023
Opening balance	\$ 16,810,503	\$ 18,706,118
Business combinations	-	42,149
Additions	-	238,291
Revisions	(159,496)	(2,765,277)
Liabilities settled	-	-
Accretion	146,527	589,222
Ending balance	\$ 16,797,534	\$ 16,810,503

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

14. SHARE CAPITAL

(a) Common shares

Authorized: Unlimited common voting shares

Share Capital	Common Shares	Share Capital
Balance at December 31, 2022	240,585,468	\$ 17,189,373
Issuance of shares (debt conversion)	25,373,353	967,119
Issuance of shares (private placement)	21,118,000	1,238,039
Issuance of shares (warrant exercise)	133,589,094	11,269,947
Share issuance costs	525,600	(147,814)
Balance at December 31, 2023	421,191,515	\$ 30,516,664
Issuance of shares (debt settlement)	3,581,434	357,775
Issuance of shares (warrant exercise)	-	6,724
Balance at March 31, 2024	424,772,949	\$ 30,881,163

2023 Transactions:

On February 14, 2023, the Corporation completed a non-brokered private placement of 17,520,000 units at a subscription price of \$0.075 per unit for gross proceeds of \$1,314,000. Each unit of the offering consists of one common share and a partial warrant (0.875:1 warrant to unit ratio). Each whole warrant entitles the holder to subscribe for one additional share in the capital of the Corporation at a price of \$0.09 per warrant for 2 years from closing. The warrants have been valued at \$509,483 using the Black Scholes model. The Corporation paid finders fees of \$nil in cash and issued 525,600 common shares and 459,900 warrants valued at \$63,072 and \$24,835 respectively. The finders warrants are exercisable at a price of \$0.105 per warrant and expire two years from the date the units were issued.

On June 12, 2023, the Corporation completed a non-brokered private placement of 3,015 units for total proceeds of \$3,015,000. Each unit consists of (i) one thousand common shares of the Corporation (issued at closing); and (ii) one 8% 2-year promissory note in the principal amount of \$1,000.

On November 15, 2023, the Corporation completed a non-brokered private placement of 583 units for total proceeds of \$583,000. Each unit consists of (i) one thousand common shares of the Corporation (issued at closing); and (ii) one 14% 2-year promissory note in the principal amount of \$1,000. The Corporation paid finders fees of \$23,310 in cash and issued 211,909 warrants valued at \$10,384. The warrants are exercisable at a price of \$0.13 per warrant for a period of two years from the closing date.

2024 Transactions:

On March 21, 2024, the Corporation settled accrued interest expense of \$376,050.76 to the Corporation's convertible debenture holders through the issuance of PEI common shares at a price of \$0.105 per share, for an aggregate amount of 3,581,434 common Shares.

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

14. SHARE CAPITAL (continued)

In Q1, 2023, Prospera Energy closed a private placement for total proceeds of \$1,314,000, with the summary and terms of the financing as follows:

Private Placement		Investment Amount
Unit investment		\$ 1,314,000
Issuer:	Prospera Energy Inc. (“ Prospera ” or the “ Company ”).	
Issue:	Non-brokered offering (the “ Offering ”) of units (“ Units ”). Each Unit will consist of (i) one common share of the Company; and (ii) 0.875 common share purchase warrant (the “ Warrant ”). Each warrant shall entitle the holder to acquire one additional common share of the Company at an exercise price of \$0.09 for a period of two years from the date of issuance thereof. The warrants shall be transferable and shall not be listed on any stock exchange.	
Issue Price:	\$0.075 per Unit.	
Offering Amount:	Up to \$2,000,000.	
Underlying Shares:	Common shares of the Company listed on the TSX Venture Exchange under the symbol PEI (the “ Common Shares ”).	
Use of Proceeds:	Prospera intends to use the net proceeds of the Offering for general working capital.	
Warrants:	Each warrant entitles the holder to subscribe for one additional common share for a period of 2 years from the date of closing at a price of \$0.09. The Company may accelerate the expiry of the warrants, in the event that the shares trade at \$0.30 for ten consecutive business days following the expiry of the 4 month hold period.	
Dividend Adjustment and Anti-Dilution:	The Warrant exercise price will also be subject to standard anti-dilution adjustments upon, inter alia, share consolidations, share splits, spin-off events, rights issues, and reorganizations.	
Offering Basis:	Non- brokered private placement offering.	
Finders Fees	The Company may pay qualified finders a fee of 3% cash and 3% warrants.	

(b) Share purchase warrants

A continuity of the Corporation's share purchase warrants outstanding is as follows:

	Weighted average exercise price	Number of share purchase warrants	Amount
Balance at December 31, 2022	\$ 0.070	159,348,119	\$ 2,875,863
Warrants issued upon convertible debt conversion	0.075	25,373,353	508,216
Warrants issued upon private placement	0.090	15,330,000	509,483
Finder’s warrants	0.113	671,809	35,218
Warrants exercised	0.068	(133,589,094)	(2,158,179)
Warrants expired	0.075	(8,296,296)	(147,402)
Balance at December 31, 2023	\$ 0.080	58,837,891	\$ 1,623,199
Balance at March 31, 2024	\$ 0.080	58,837,891	\$ 1,623,199

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

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 the 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-tradeable 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 based on the market price of the Corporation's shares on the grant date.

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

Stock options	Number of options	Weighted average exercise price
Balance at December 31, 2022	5,416,668	\$ 0.05
Granted	4,554,540	\$ 0.11
Forfeited	(318,000)	\$ 0.09
Cancelled	(450,000)	\$ 0.05
Balance at December 31, 2023	9,203,208	\$ 0.08
Balance at March 31, 2024	9,203,208	\$ 0.08

The range of exercise prices of the outstanding options and exercisable options as at March 31, 2024 were as follows:

Expiry Date	Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price	Weighted Average Contractual Life Remaining (Years)
December 15, 2024	250,000	250,000	\$ 0.050	0.71
March 21, 2025	1,250,000	1,250,000	0.100	0.97
June 29, 2025	300,000	300,000	0.050	1.25
December 30, 2025	2,100,000	2,100,000	0.050	1.75
March 21, 2026	1,250,000	1,250,000	0.125	1.97
June 30, 2026	350,000	350,000	0.050	2.25
December 22, 2026	210,000	210,000	0.050	2.73
February 11, 2027	200,000	150,000	0.050	2.87
April 1, 2027	50,000	50,000	0.050	3.00
May 27, 2027	700,000	700,000	0.050	3.16
December 1, 2027	50,000	-	0.095	3.67
December 19, 2027	666,668	-	0.075	3.72
March 14, 2028	241,540	60,385	0.125	3.96
March 20, 2028	400,000	-	0.110	3.97
June 1, 2028	100,000	-	0.110	4.17
June 29, 2028	1,000,000	950,000	0.100	4.25
September 26, 2028	85,000	-	0.120	4.49
Total	9,203,208	7,620,385	\$ 0.080	2.44

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

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:

	Q1 2024	Q1 2023
Income (loss) for the period	\$ (657,157)	\$ (1,571,114)
Number of common shares, start of quarter	421,191,515	240,585,468
Effect of common shares issued	3,581,434	96,633,551
Number of common shares, end of quarter	424,772,949	337,219,019
Basic weighted average number of common shares	421,585,079	275,088,184
Income (loss) per share	\$ (0.00)	\$ (0.01)

16. RELATED PARTY TRANSACTIONS

All transactions with related parties are in the normal course of business. The receivables, payables and promissory notes are unsecured, non-interest bearing and due within twelve months of the reporting period date.

1. For the three months ended March 31, 2024, consulting fees of \$8,283 (2023 - \$100,181) were paid to related party officers or directors of the Corporation.
2. For the three months ended March 31, 2024, expenditures of \$200,071 (2023 - \$1,512,125) were charged by an officer or director of the Corporation or by a corporation controlled by an officer or director.
3. At March 31, 2024, \$1,096,471 (2023 - \$1,048,119) 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.
4. At March 31, 2024, \$499,689 (2023 - \$797,212) was included in trade and other payables owing to officers and directors of the Corporation or to Corporations controlled by an officer or director.
5. At March 31, 2024, there is a promissory note and liability related to asset purchase in the amount of \$1,508,664 (2023 - \$1,540,733) payable to a related party.

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:

	Q1 2024	Q1 2023
Consulting fees	\$ 8,283	\$ 11,901
Salaries and benefits	45,000	45,000
Share-based payments	-	-
	\$ 53,283	\$ 56,901

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

17. 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 16.) The Corporation's production is sold to a variety of purchasers under normal industry sale and payment terms. Accounts receivable 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 March 31, 2024, the Corporation has a working capital deficiency of \$17,792,623 and an accumulated deficit of \$36,181,146. 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 March 31, 2024 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 March 31, 2024.

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 March 31, 2024.

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. 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' equity. Management reviews its capital management approach on a regular basis and believes that this approach, given the relative size of the Corporation, is reasonable. There were no changes in the Corporation's approach to capital management during the quarter ended March 31, 2024. The Corporation's working capital deficiency at March 31, 2024 was \$17,792,623 (December 31, 2023 – \$17,476,760). The Corporation's accumulated deficit at March 31, 2024 was \$36,181,146 (December 31, 2023 – \$35,523,987).

PROSPERA ENERGY INC.
Notes to Financial Statements
Three Months Ended March 31, 2024

18. PETROLEUM AND NATURAL GAS SALES

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

	Q1 2024	Q1 2023
Petroleum	\$ 3,873,586	\$ 1,551,819
Natural gas	58,630	10,195
	\$ 3,932,215	\$ 1,562,014

The above table does not include \$248,686 of revenues from interest earned on deposits, rental income, and credits in 2024.

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

During the quarter ended March 31, 2024, 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.

19. CONTINGENCIES

The Corporation is a 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. At March 31, 2024, the Corporation carried the amount of \$313,439 accrued in Q1 2024 (2023 – \$313,439) in the financial statements, which is included in trade and other payables, in relation to these claims.