PROSPERA ENERGY INC.
(formerly Georox Resources Inc.)
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2018

GENERAL

The following Management's Discussion and Analysis ("**MD&A**") of Prospera Energy Inc. (the "**Corporation**" or "**Prospera**") as at and for the three months and year ended December 31, 2018 is provided for the purpose of reviewing the Corporation's results of operations and financial position for the periods then ended. This MD&A is dated as of **April 30, 2019** and should be read in conjunction with the Corporation's audited December 31, 2018 financial statements together with the notes thereto.

Amounts are shown in Canadian dollars unless otherwise stated. All production volumes disclosed herein are sales volumes.

In the following discussion, the three months ended December 31, 2018 may be referred to as "Q4 2018" and the comparative three months ended December 31, 2017 may be referred to as "Q4 2017".

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 related to the Corporation is available on SEDAR at www.sedar.com, and on the Corporation's website at www.prosperaenergy.com.

BASIS OF PRESENTATION

Per BOE disclosures

Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (bbl) of oil. BOEs may be misleading, particularly if used in isolation. The forgoing conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms to the Canadian Securities Regulators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. Given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalency of 6:1 utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

For the purpose of this MD&A, oil is defined to include the following commodities: light and medium oil and primary heavy oil.

Non-IFRS Measures

The financial data presented herein has been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The Corporation has also used certain measures of financial reporting that are commonly used as benchmarks within the oil and natural gas production industry in the following MD&A discussion. The measures are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities. Most notably, these measures include "operating netback", "funds flow from (used in) operations".

Operating netback is a benchmark used in the crude oil and natural gas industry to measure the contribution of oil and natural gas sales and is calculated by deducting royalties and operating expenses from revenues. Management utilizes this measure to analyze operating performance.

Funds flow from (used by) operations is cash flow from operating activities before changes in non-cash working capital and certain other items, and is used to analyze operations, performance and liquidity. The Corporation considers funds flow from (used by) operations a key measure as it demonstrates the Corporation's ability to generate the cash flow necessary to fund future growth through capital investment and to repay debt. The Corporation's calculation of funds flow from (used by) operations may not be comparable to that reported by other companies.

The reconciliation between funds flow from (used by) operations and cash flow from (used by) operating activities for the three months and year ended December 31, 2018 and 2017 is presented in the table below:

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Cash flow used by operating activities	$ 202,806	$ 169,405	$ 1,453,109	$ (257,487)
Change in non-cash working capital	(319,748)	(664,267)	(838,907)	(408,019)
Funds flow used by operations	$ (116,942)	$ (494,862)	$ 614,202	$ (665,506)

These measures are not defined under IFRS and should not be considered in isolation or as an alternative to conventional IFRS measures. These measures and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of another entity. When these measures are used, they are defined as "Non IFRS" and should be given careful consideration by the reader as non-IFRS financial measures do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

DESCRIPTION OF BUSINESS

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

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

OVERALL PERFORMANCE

Petroleum and natural gas sales ("P&NG sales") were $774,320 for Q4 2018 with royalty expenses of $58,164. The Corporation reported a loss of $6,646,520 for Q4 2018 as compared to a loss of $1,040,807 for Q4 2017. The increase in the loss arose as a result of impairment of property and equipment and goodwill and was partially offset by gains on the de-recognition of debt related to the settlement of a long standing dispute with an operator of the Corporation's Red Earth properties for which previously $343,253 of accrued amounts were discharged and reversed and to the forgiveness and reversal of $717,054 of default interest, participation and monitoring fees and accretion on the credit facility.

Total P&NG sales volumes for Q4 2018 were 21,984 BOEs (239 BOE per day) as compared to 6,698 BOEs (73 BOE per day) for Q4 2017, representing a 228% increase resulting from the acquisition of a 20% working interest in producing properties located in southwest Saskatchewan and eastern Alberta in June 2018 and an additional 15% working interest acquired in December 2018. The Corporation's average selling price for Q4 2018 was $35.22 per BOE compared to $58.38 per BOE for Q4 2017, representing a 40% decrease due to a sharp decline in commodity prices in November and December 2018.

As at December 31, 2018, the Corporation had a working capital deficit of $7,648,144, including $4,915,125 of outstanding credit facilities. The Corporation's loan matured on July 31, 2018. Subsequent to December 31, 2018, the Corporation and its lender signed an amended credit facility agreement. See the discussion on Credit Facilities in the Liquidity and Capital Resources section.

SELECTED FINANCIAL INFORMATION

Summary Information		As at December 31 2018		As at December 31 2017		As at December 31 2016
Working capital deficit	$	(7,648,144)	$	(7,204,444)	$	(6,513,005)
Property and equipment		9,665,253		6,699,220		6,918,124
Total assets		11,352,526		7,055,949		7,627,893
Total current liabilities		9,335,417		7,561,173		6,857,313
Total liabilities		18,734,261		8,888,367		7,761,854
Total shareholders' deficit		(7,381,735)		(1,832,418)		(133,961)

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
P&NG sales	$ 774,320	$ 391,064	$ 3,094,542	$ 1,780,057
Net loss and comprehensive loss	(6,646,520)	(1,040,807)	(6,921,479)	(1,964,921)
Net loss per share – basic and diluted	(0.14)	(0.04)	(0.18)	(0.08)
Funds flow used by operations	(116,942)	(494,862)	614,202	(665,506)
Weighted average number of common shares – basic and diluted	46,192,311	26,372,311	38,155,708	24,435,679

Business Combinations

20% Working Interest

On June 11, 2018, pursuant to a purchase and sale agreement (the "Agreement"), the Corporation acquired a 100% working interest in producing properties located in southwest Saskatchewan and eastern Alberta (the "Assets"). The Corporation was the lead on the transaction, but was supported by an arm's-length private corporation participant who was responsible for 80% of the purchase price and was subsequently assigned an 80% interest in the Assets and in the rights and obligations under the Agreement. The Corporation is the operator of the Assets for a minimum period of 18 months from the date of closing and holds a 20% working interest in the Assets. Cash consideration of $900,000 was paid by the Corporation for its 20% interest plus $173,865 in adjustments for prepaid lease rentals paid by the vendor between the effective and closing dates.

The Corporation has an option until December 11, 2019 to acquire an additional 10% working interest in the Assets for $1,250,000. Since June 11, 2018, the acquisition contributed $1,428,391 of petroleum and natural gas revenue and $30,359 of operating income (petroleum and natural gas revenue less royalties and operating expenses) to the Corporation.

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	$ 1,370,087
Prepaid lease rentals	173,286
Goodwill	1,259,139
Decommissioning liability	(1,728,647)
	$ 1,073,865
Consideration:	
Cash	$ 1,073,865

15% Working Interest

On December 21, 2018 the Corporation completed the acquisition of an additional 15% working interest in the producing properties acquired from the arms-length private corporate participant who was responsible for 80% of the acquisition described above. Consideration for the 15% working interest was $937,500 of cash consideration.

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	$	1,003,500
Goodwill		1,299,708
Provision for decommissioning		(1,365,708)
	$	937,500
Consideration:		
Cash	$	937,500

Since December 21, 2018, the acquisition contributed $11,547 of petroleum and natural gas sales and $1,556 of operating income (petroleum and natural gas sales less royalties and operating expenses).

Results of Operations

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Total P&NG sales volumes (BOE)	21,984	6,698	62,179	32,821
Daily P&NG sales volumes (BOE per day)	239	73	170	90
Per BOE				
P&NG sales ($)	35.22	58.38	49.77	54.26
Royalties ($)	(2.65)	(1.83)	(3.94)	(4.43)
Operating costs ($)	(45.76)	(27.03)	(34.06)	(32.25)
Operating netback ($)	(13.19)	29.52	11.77	17.58

Netback

Total P&NG sales volumes for Q4 2018 and Q4 2017 were 21,984 BOE and 6,698 BOE, respectively, representing an increase of 228%. The Corporation's average netback for Q4 2018 was $(13.19) per BOE compared to $29.52 per BOE for Q4 2017. The decrease in the Q4 2018 netback is due to a decline in commodity prices in the latter part of 2018 combined with an increase in operating costs per BOE.

Royalties

Total royalties are the combination of royalties paid on crown lands, royalties paid on freehold lands, and gross overriding royalties. However, the overall corporate royalty rates under the Alberta Royalty Framework ("ARF") are sensitive to both commodity prices and production levels. Therefore royalty rates and royalties under ARF will fluctuate with commodity prices, well production rates, production decline of existing wells and locations of new wells drilled. Royalty expense for Q4 2018 was $2.65 per BOE as compared $1.83 per BOE in Q4 2017. For the year ended 2018, the royalty expense per BOE was $3.94 per BOE compared to $4.43 per BOE in 2017 and is a result of increased production being spread over a smaller amount of cost in royalties. Royalties as a percentage of P&NG sales were 8% for the years ended December 31, 2018 and 2017.

Operating Costs

All activities associated with operating the wells and facilities are included in the operating expenses. They include such items as gathering, processing, treating, compression, hauling, lifting and production storage. The average operating cost per BOE for Q4 2018 was $45.76 as compared to Q4 2017 of $27.03 per BOE. The average operating cost per BOE increased in Q4 2018 due to an increase in utilities, maintenance and trucking expenses. In 2018, the Corporation operated all of its wells in the Red Earth area, thereby incurring only minor costs for processing and water disposal fees. However, operating costs tended to fluctuate from

month to month depending on the amount of well servicing required to maintain production levels. Management continues to monitor operating costs to minimize expenses where possible.

Transportation costs (included in operating costs) include clean oil trucking and hauling, treating and processing fees, gathering and transmission, compression and marketing fees and are are dependent on a variety of factors such as the method of transportation, the distances covered, the rates charged by the carriers, quantities shipped, cost of fuel, the type of service offered, as well as ownership of the transportation facilities. Transportation costs for Q4 2018 and the year ended December 31, 2018 were $7.62 per BOE (22% of P&NG sales) and $4.84 per BOE (10% of P&NG sales), respectively. Transportation costs for Q4 2017 and the year ended December 31, 2017 were $5.14 per BOE (9% of P&NG sales) and $5.82 per BOE (11% of P&NG sales), respectively. Transportation costs increased in Q4 2018 primarily due to a higher volume of fluids being transported to longer distances to move marketable crude oil to selling points.

General and Administrative

The general and administrative ("G&A") costs reflect the cost of managing the Corporation's properties and associated activities and includes legal, transfer agent fees, reserve evaluation fees, audit and accounting and other professional fees. The Corporation directs significant efforts to maintaining or reducing its controllable costs.

G&A costs for Q4 2018 and the year ended December 31, 2018 were $170,409 (22% of P&NG sales) and $460,826 (15% of P&NG sales), respectively. G&A costs for Q4 2017 and the year ended December 31, 2017 were $195,107 (50% of P&NG sales) and $654,690 (37% of P&NG sales), respectively. Overall G&A costs were lower in the 2018 periods due to overhead recoveries and a decrease in marketing, consulting and office expenses.

Share-based Payments

Share-based payments ("SBP") are non-cash charges which reflect the estimated value of stock options granted to officers, employees and consultants. The fair value of all stock options granted is recorded as a charge to operations over the period from the grant date to the vesting date of the option. The Corporation granted 1,000,000 stock options exercisable at $0.05 per share in Q4 2018.

The following table summarizes information about stock options outstanding as at December 31, 2018:

Expiry date	Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price
June 9, 2019	200,000	200,000	$ 0.10
December 15, 2019	150,000	150,000	$ 0.07
November 20, 2020	1,000,000	1,000,000	$ 0.05
December 15, 2020	200,000	200,000	$ 0.07
October 6, 2021	800,000	800,000	$ 0.09
	2,350,000	**2,350,000**	

During Q4 2018 and the year ended December 31, 2018, the Corporation recognized $61,727 and $76,162, respectively, of SBP expense as compared to $2,272 and $36,344, respectively, during Q4 2017 and the year ended December 31, 2017.

Depletion and Depreciation

The depletion and depreciation rate for Q4 2018 was $52.79 per BOE as compared to $16.13 per BOE for Q4 2017. The depletion and depreciation rate for the year ended December 31, 2018 was $30.61 per BOE as compared to $16.76 for the year ended December 31, 2017. The increase in the rate for the year ended

December 31, 2018 is due to the effect of the business combinations completed in June 2018 and December 2018.

Impairment

During the years ended December 31, 2018 and 2017, the Corporation recognized the following impairment losses:

	2018	2017
Exploration and evaluation assets	$ –	$ 364,697
Petroleum and natural gas assets	3,346,048	106,878
Goodwill	2,558,847	–
	$ 5,904,895	$ 471,575

As at December 31, 2018, the Corporation has six petroleum and natural gas CGUs: Pouce Coupe and Red Earth in the province of Alberta and Cuthbert, Hearts Hill, Luseland and Silverdale in the province of Saskatchewan (2017 – Pouce Coupe and Red Earth).

Petroleum and natural gas assets

At December 31, 2018 and 2017, the Corporation identified certain business risks related to its petroleum and natural gas assets such as a decline in forward commodity prices. As a result, the Corporation tested its petroleum and natural gas CGUs for impairment at December 31, 2018 and 2017. As at December 31, 2018, the estimate of the fair value less costs to dispose of the Corporation's Cuthbert, Hearts Hill and Luseland CGUs was less than the respective carrying values resulting in the recognition of a $3,346,048 impairment loss, of which $1,374,718 is attributed to the Cuthbert CGU, $1,261,877 to the Hearts Hill CGU and $709,453 to the Luseland CGU. During 2017, the Corporation recognized an impairment loss of $106,878 in respect of the Silverdale CGU.

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, 2018 and 2017 recoverable amounts, future cash flows were adjusted for risks specific to the CGUs, reduced by a cost to dispose of 2% and discounted using a discount rate of 15%.

Goodwill

The recoverable amount of goodwill at December 31, 2018 was determined as the fair value less costs to dispose using a discounted cash flow method and was assessed at the CGU level. The Corporation's key assumptions used in determining the fair value less costs to dispose include discounted net present value of the estimated future cash flows expected to arise from the continued use of the CGU using a 15% discount rate. The impairment test of goodwill at December 31, 2018 concluded that the estimated recoverable amount was less than the carrying amount and the Corporation recognized $2,558,847 of goodwill impairment of which $1,704,765 is attributed to the Cuthbert CGU and $854,082 to the Hearts Hill CGU.

Exploration and evaluation assets

As at December 31, 2017, the Corporation recognized $364,697 of impairment losses for its Meekwap property as the Corporation does not intend to pursue further exploration or development of this area.

Finance (Expense) Recovery

		2018		2017
Interest expense	$	(528,654)	$	(687,683)
Accretion of credit facilities		–		(131,066)
Derivative revaluation)		15,391		14,390
Forgiveness of interest, participation and monitoring fees		497,403		–
Reversal of accretion		219,651		–
Accretion of provision for decommissioning		(82,483)		(20,217)
	$	121,308	$	(824,576)

In connection with the confirmation of amounts outstanding under the Corporation's credit facilities as at December 31, 2018, the Corporation recognized a $717,054 recovery of finance expenses related to the lender's forgiveness of previously accrued default interest, participation and monitoring fees in the amount of $497,403 and the $219,651 reversal of previously recorded accretion on the outstanding debt amount.

Gain on De-recognition of Debt

In November 2018, the Corporation settled a long standing dispute with the former operator of its Red Earth properties, pursuant to which the Corporation accrued a contingency amount in trade and other payables in its 2017 financial statements. Following the receipt of notice on November 26, 2018 that the operator's writ enforcement and security agreement in respect of the Corporation's Red Earth properties were discharged, the Corporation recognized a $343,253 gain on de-recognition of debt.

Provision for Decommissioning

The Corporation estimates the total inflation-adjusted undiscounted amount of cash flow required to settle its asset retirement obligations, before salvage proceeds at December 31, 2018 to be $11,730,546 (2017 – $1,559,175) which will be incurred at various times over the next sixteen years. The $9,398,844 December 31, 2018 provision for decommissioning was calculated using risk-free rates ranging from 1.90% to 2.15% and an inflation factor of 2.0%. Settlement of the obligations will be funded from general corporate funds at the time of retirement. As at December 31, 2018, no funds have been set aside to settle these obligations.

SELECTED QUARTERLY INFORMATION

The following table sets forth selected consolidated financial information of the Corporation for the quarterly periods presented.

	Dec 31 2018	**Sep 30 2018**	**Jun 30 2018**	**Mar 31 2018**	**Dec 31 2017**	**Sep 30 2017**	**Jun 30 2017**	**Mar 31 2017**
Revenue ($)	774,320	1,289,934	642,094	388,194	391,064	344,932	526,354	517,707
Loss for the period ($)	(6,646,520)	(11,926)	(86,132)	(176,901)	(1,040,807)	(261,052)	(418,228)	(244,834)
Loss per share ($)	(0.14)	(0.00)	(0.00)	(0.01)	(0.04)	(0.01)	(0.02)	(0.01)

Over the past eight quarters, the Corporations's P&NG sales revenues have fluctuated due to changes in production volumes and the price realized for the sale of the Corporation's production. The fluctuation was also caused by an increase in production due to the acquisition of properties in June 2018. During the quarter ended December 31, 2018, the Corporation recognized property and equipment impairment of $3,346,048 and $2,558,847 of goodwill impairment.

LIQUIDITY AND CAPITAL RESOURCES

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

Liquidity risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities when due. As at December 31, 2018, the Corporation does not have sufficient cash equivalent to settle its $4,420,262 of trade and other payables (2017 –$2,276,006) and $4,915,125 of credit facilities (2017 – $5,269,776). The Corporation's working capital deficiency at December 31, 2018 was $7,648,144 (2017 – $7,204,444). All of the Corporation's trade and other payables have contractual maturities of 30 days or less, are subject to standard trade terms and are scheduled for payment within one year; the Corporation's credit facilities are classified as current and the Corporation was not in compliance with the related financial covenants at December 31, 2018 and 2017.

On May 28, 2018 the Corporation completed a non-brokered private placement (the "Private Placement") of 18,000,000 common shares on an oversubscribed basis for subscriptions of 19,700,000 common shares. The offering was $0.05 per share for aggregate gross proceeds of $985,000. The Private Placement proceeds were used for the payment of the acquisition of oil and gas assets that closed on June 11, 2018 and for general working capital. The Corporation incurred $61,000 of share issue costs comprised of $55,000 of finders fees paid in cash and 120,000 common shares at a deemed price of $0.05.

Credit Facilities

		Debt		Derivative liability		Total
Balance, December 31, 2017	$	5,269,776	$	15,391	$	5,285,167
Amounts advanced under Credit Facility B		300,000		–		300,000
Principal repayment		(310,000)		–		(310,000)
Disposition proceeds		(125,000)				(125,000)
Reversal of accretion		(219,651)				(219,651)
Expiry of warrants		–		(15,391)		(15,391)
Balance, December 31, 2018	$	**4,915,125**	**$**	**–**	$	**4,915,125**

As at December 31, 2018, $4,537,945 (December 31, 2017 - $4,662,922) was outstanding in relation to Credit Facility A and $377,180 (December 31, 2017 – $387,180) was outstanding in relation to Credit Facility B.

On September 8, 2017, the Corporation entered into a Forbearance Agreement and a Quitclaim with the lender. On March 27, 2018, the Corporation amended Credit Facility B to add additional security of a promissory note for $125,000 and to increase the sum of the first supplemental debenture to $7,500,000 from $4,000,000. The amount available under Credit Facility B has increased to $725,000 (from $600,000) and was to be used for the purpose of funding a waterflood project and paying outstanding property taxes at the Corporation's Red Earth property.

Credit Facilities A and B (collectively, the "Amended Credit Facilities") are secured by promissory notes for $4,622,945 and $600,000, a $25,000,000 fixed and floating charge debenture, a general security agreement on the assets of the Corporation and a $4,000,000 debenture from the Corporation providing a security interest in all present and after-acquired personal property, a fixed charge on all the oil and gas assets and a floating charge over all other present and after-acquired real property.

Participation fee

Per the terms of the Amended Credit Facilities, the lender may be entitled to a participation fee on the 2018 net revenues (defined as total revenues less royalties) up to a cumulative amount of $500,000.

Covenants

The Corporation is subject to the following covenants under the Amended Credit Facilities:

- A 1.0:1.0 current ratio;
- A Secured Debt to Trailing Cash Flow at or below 3.0 : 1.0:
- A corporate Licensee Liability Rating ("LLR") of 1.5 or greater; and,
- Maintain monthly sales production of 140 boe/day.

Credit Facility A bears interest at 10% per annum, increasing to 19% per annum in the event of default. Credit Facility B bears interest at 12% per annum, increasing to 19% per annum in the event of default. Principal repayments on Credit Facility A of $50,000 per month shall begin on the last day of the month following the repayment of Credit Facility B.

The Amended Credit Facilities were due on July 31, 2018. At December 31, 2018, the Corporation was in breach of all the covenants except for maintaining an LLR of 1.5 or greater.

On April 29, 2019, the Corporation and its lender signed an amended credit facility agreement (the "Second Amending Agreement") with respect to the Amended Credit Facilities. A summary of the amended terms are as follows:

- The maturity date of the Amended Credit Facilities shall be April 30, 2020;
- The interest rate on the Amended Credit Facilities shall reduce to 9.5% per annum effective upon the Corporation making a $400,000 lump sum principal repayment funded from the sale proceeds of the Silverdale CGU (Note 23(b)) with any shortfall made up from the Corporation's working capital;
- Upon the receipt of the $400,000 lump sum principal repayment, the lender will provide $400,000 of debt forgiveness such that the reduction of the principal amount owing under the Credit Facilities will be $800,000;
- The interest rate shall be further reduced to 9% per annum upon the receipt of a second lump sum principal repayment in the amount of $250,000 by no later than August 31, 2019;
- Upon the receipt of the $250,000 lump sum principal repayment, the lender will provide $250,000 of debt forgiveness such that the reduction of the principal amount owing under the Credit Facilities will be $500,000;
- The Corporation shall make a $500,000 lump sum principal repayment on October 31, 2019 or by December 31, 2019 as assessed by the lender;
- 100% of the net proceeds from the sale of any CGUs and 100% of the net proceeds from the issuance of debt shall be used to repay amounts owing under the Amended Credit Facilities;
- Monthly aggregate payments of $100,000, inclusive of monthly interest, shall commence on April 30, 2019 and continue on the last day of each month thereafter;
- The Forbearance and Quitclaim shall remain in effect until April 30, 2020;
- Prepayment shall be permitted at any time with no penalty;
- In the event of default, the interest rate shall be 12% per annum;
- The Corporation shall be subject to the following amended covenants:

- A 0.3:1.0 current ratio;
- A Trailing Cash Flow (EBITDA) for the most recent quarter annualized) of not less than $300,000;
- A corporate LLR of 1.5 or greater; and,
- Monthly sales production from Alberta properties of 55 boepd, reduced to 40 boepd in the event of the sale of the Corporation's Pouce Coupe CGU.

SHARE CAPITAL

	Common shares	Stock options	Warrants	DSUs
Balance, December 31, 2017	26,372,311	1,350,000	9,220,618	933,241
Issued/granted 2018	19,820,000	1,000,000	–	295,513
Expired	–	–	(7,698,333)	–
Cancelled	–	–	–	(244,885)
Balance, December 31, 2018	46,192,311	2,350,000	1,522,285	983,869
Issued	7,560,000	–	7,560,000	–
Balance, date of MDA	53,752,311	2,350,000	9,082,285	983,869

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During 2018, $117,255 (2017 – $68,480) was expensed for legal services provided by a law firm of which a director of the Corporation is a partner. Included in trade and other payables at December 31, 2018 is $123,044 (2017 – $72,817) owing to this law firm.

During 2018, management, consulting and engineering fees of $113,000 (2017 – $96,000), included in general and administrative expenses, were charged by an officer of the Corporation and by a Corporation controlled by an officer. Included in trade and other payables at December 31, 2018 is $64,800 (2017 – $14,000) owing to these officers.

The above transactions with related parties are in the normal course of business.

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 for the years ended December 31, 2018 and 2017 is comprised of the following:

	2018	2017
Consulting fees	$ 113,000	$ 96,000
Salaries and benefits	48,708	30,000
Share-based payments	76,162	30,321
Deferred share units	18,875	22,250
	$ 256,745	$ 178,571

During 2018, 295,513 deferred share units ("DSUs") (2017 – 370,280) were granted to directors. The fair value DSUs granted in 2018 was $18,875 (2017 – $22,250) based on the market price of the Corporation's shares on the dates of grant, which is included in general and administrative expense.

DIVIDENDS

The Corporation has not declared or paid any dividends. Any decision to pay dividends on any of its shares will be made by the Board of Directors of the Corporation on the basis of earnings, financial requirements and other conditions existing at the time.

COMMITMENT

The Corporation has a lease for office premises in the amount of $2,456 per month until June 30, 2019.

SUBSEQUENT EVENTS

Private placement

On January 29, 2019, the Corporation closed a non-brokered private placement for the issuance of 7,560,000 units at $0.05 per unit for gross proceeds of $378,000. Each unit is comprised of one common share and one warrant. Share purchase warrants are exercisable at $0.12 per share until January 25, 2020. $366,000 of proceeds were received in advance in December 2018. Officers and directors subscribed for 6,000,000 units.

Property disposition

On March 18, 2019, the Corporation signed a purchase and sale agreement for the disposition of its Silverdale CGU for $330,000 of cash consideration. The disposition is expected to close on April 30, 2019.

Credit facilities

On April 29, 2019, the Corporation and its lender signed an amended credit facility agreement. See the discussion on Credit Facilities in the Liquidity and Capital Resources section.

FINANCIAL INSTRUMENTS

The fair values of the Corporation's cash, trade and other receivables, trade and other payables and credit facilities approximate their carrying amounts due to the short-term nature of these financial instruments.

The Corporation's accounts receivable are primarily with industry partners and are subject to standard industry credit risks. The Corporation extends unsecured credit to these entities, and therefore, the collection of any receivables may be affected by changes in the economic environment or other conditions. Management believes the risk is mitigated by the financial position of the entities. To date, the Corporation has not participated in any risk management contracts or commodity price contracts.

BUSINESS RISKS AND UNCERTAINTIES

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

Going Concern

The Corporation's business is capital intensive and additional capital is required on a periodic basis. Specifically, continuing operations, as intended, are dependent on management's ability to raise required funding through future equity issuances, credit facilities, asset sales or a combination thereof, which is not assured, especially in the current uncertain financial and commodity price environment. The sharp decline in commodity prices during the latter half of 2014 through to the second quarter ended June 30, 2017 and again in the latter part of 2018 have negatively affected the Corporation's ability to access additional capital on terms acceptable to the Corporation, which is required for liquidity purposes and to fund commitments on the Corporation's properties. The current world-wide economic environment relating to the oil and gas industry has made access to capital challenging for many companies, including the Corporation. This has resulted in liquidity challenges and unless the Corporation is able to raise additional capital or renegotiate its commitments, it does not anticipate meeting all of its anticipated 2019 capital commitments.

Furthermore, there is potential that future commodity prices and the world-wide economic environment relating to the oil and gas industry, in general, will remain relatively stagnate in its current position for an extended period of time and the Corporation will need to negotiate with its creditors to improve payment terms and/or pursue some form of asset sale, equity financing or other capital raising effort in order to fund its operations during the next twelve months. To that end, the Corporation is currently, and will continue, on an ongoing basis, examining alternative sources of capital, including potential debt and equity financing and ways to monetize its assets, including, without limitation, asset sales or swaps, joint ventures, corporate mergers or acquisitions, farmouts or other transactions with industry partners, all with a view to enhancing liquidity and meet 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 exploration may involve unprofitable efforts, not only from dry wells, but also from 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.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and to the financial systems, and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions are continuing in 2018 causing a loss of confidence in the broader Canadian and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate. These factors have negatively impacted corporate valuations and will impact the performance of the global economy going forward.

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 year ended December 31, 2018. 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 companies operate various producing wells in which the Corporation holds interests except for the

two wells that the Corporation operates in the Pouce Coupe property, nine wells in its Red Earth property and over one hundred and ten wells in its recent acquisition. The Corporation has limited ability to exercise influence over the non-operated assets or their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets operated by others therefore depends upon a number of factors that may be outside of the Corporation's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Regulatory Compliance

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

Environmental

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

Substantial Capital Requirements

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

Dilution

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

Conflicts of Interest

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

LEGAL, ENVIRONMENTAL, REMEDIATION AND OTHER CONTINGENT MATTERS

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

NEW ACCOUNTING STANDARDS

Adoption of IFRS 9 Financial Instruments

On January 1, 2018, the Corporation adopted IFRS 9 using the modified retrospective approach which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") and includes new requirements for the classification and measurement of financial assets, a new credit loss impairment model and new model to be used for hedge accounting for risk management contracts. The Corporation does not currently have any risk management contracts. The adoption of IFRS 9 did not have a material impact on the Corporation's financial statements and management applied the provision matrix practical expedient as part of the adoption of the standard.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI, and FVTPL. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the Corporation's business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The differences between the two standards did not impact the Corporation at the time of transition.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Corporation's financial assets and financial liabilities as at January 1, 2018.

	Measurement Category [1] [2]	
Financial instrument	IAS 39	IFRS 9
Cash	FVTPL	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Financial liabilities at amortized cost	Amortized cost
Credit facilities	Financial liabilities at amortized cost	Amortized cost
Derivative liability	FVTPL	FVTPL

(1) There were no adjustments to the carrying amounts of financial instruments as a result of the classification change from IAS 39 to IFRS 9.

(2) The Corporation has no contract assets or debt investments measured at FVOCI.

Adoption of IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, the Corporation adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") using the modified retrospective method of adoption. The adoption of IFRS 15 did not have a material impact on the Corporation's financial statements. As part of the adoption of the standard, the Corporation applied the practical expedient to not restated contracts that are completed contracts as the beginning of the earliest period presented. The Corporation also applied the practical expedient to recognize revenue in the amount to which the Corporation has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue. Contract modifications with the Corporation's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or both based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract depending on the nature of the modification and whether the remaining products are distinct.

The Corporation's accounting policy for revenue is:

> 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.

For the comparative year, prior to the adoption of IFRS 15, the Corporation's revenue accounting policy was:

> Revenue from the sale of oil and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

FUTURE ACCOUNTING STANDARDS

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases (“IFRS 16”) which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

IFRS 16 will result in almost all leases being recognized in the statement of financial position, as the distinction between operating and finance leases is removed. Under IFRS 16, an asset (the right-to-use the leased item) and a financial liability are recognized. On initial adoption, the Corporation anticipates that it will elect to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

IFRS 16 is effective for periods beginning on or after January 1, 2019. The Corporation does not expect any material adjustments to its financial statements, however, the full extent of the impact has not been finalized..

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

IFRS 3 Business Combinations (“IFRS 3”) and IFRS 11 Joint Arrangements (“IFRS 11”) were amended in December 2017. IFRS 3 was amended to clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, it re-measures previously held interests in that business. IFRS 11 was amended to clarify that when a party that participates in, but does not have joint control of, a joint operation obtains joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3, the previously held interests in the joint operation are not remeasured. The amendments are effective for annual reporting periods beginning on or after January 1, 2019.

IFRS 3 Business Combinations

IFRS 3 was further amended in October 2018 to clarify the definition of a business. The amendments narrow the definition of a business and permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 with earlier adoption permitted.

There are no other standards or interpretations issued, but not yet effective, that the Corporation anticipates may have a material effect on the consolidated financial statements once adopted.

ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from estimated amounts. Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

Detailed disclosures on the Corporation’s use of critical judgments in applying accounting policies and key sources of estimation uncertainty can be found in Note 3(d) to the Corporation’s audited December 31, 2018 financial statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this MD&A and the Corporation's financial statements is the responsibility of management. In the preparation of this information, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

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

DIRECTORS:
Burkhard Franz, Kelowna, BC, Canada
Daryl Fridhandler, Calgary, AB, Canada
Lorraine McVean, Calgary, AB, Canada

OFFICERS:
Daryl Fridhandler, Chairman
Burkhard Franz, President & Chief Executive Officer
Savi Franz, Chief Financial Officer

OTHER:

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