

**Prospera Energy Inc.
(formerly Georox Resources Inc.)**



Interim Financial Statements

June 30, 2019 and 2018

(in Canadian dollars)

The accompanying unaudited interim financial statements ("Interim Financial Statements") of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of the Interim Financial Statements by an entity's auditor.

Interim Balance Sheet (unaudited)

	Note	June 30, 2019	December 31, 2018
ASSETS			
Current assets			
Cash		262,083	177,624
Trade and other receivables	6	3,637,105	1,086,382
Prepaid and other current assets		479,162	333,424
Inventory		162,938	89,843
		4,541,287	1,687,273
Non-current assets			
Property and equipment	7, 8, 9	12,765,214	9,665,253
Total assets		\$ 17,306,501	\$ 11,352,526
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	10	\$ 8,137,104	\$ 4,420,292
Credit facilities	11	3,888,228	4,915,125
		12,025,332	9,335,417
Non-current liabilities			
Provision for decommissioning	12	11,776,382	9,398,844
Total liabilities		23,801,714	18,734,261
Shareholders' deficiency			
Shareholders' capital	13, 14	11,440,788	11,539,391
Share purchase warrants	15	256,503	96,163
Contributed surplus		3,507,322	3,411,159
Accumulated other comprehensive income		(14,013)	(14,013)
Accumulated deficit		(21,685,813)	(22,414,435)
		(6,495,213)	(7,381,735)
Total shareholders' deficiency and liabilities		\$ 17,306,501	\$ 11,352,526

See accompanying notes to the Interim Financial Statements

Going Concern (Note 2)

Subsequent Events (Note 21)

Approved and authorised by the Board of Directors

Signed "Daryl Fridhandler", Director

Signed "Sarshar Ahmad", Director

Interim Statement of Comprehensive Income (unaudited)

	Note	Three months ended June 30,		Six Months Ended June 30,	
		2019	2018	2019	2018
Revenue					
Petroleum and natural gas sales	20	\$ 2,264,358	\$ 642,095	\$ 4,076,631	\$ 1,030,288
Royalties		(234,893)	(46,406)	(335,353)	(59,658)
		2,029,465	595,689	3,741,278	970,630
Expenses					
Operating and production		1,656,397	194,639	2,591,182	370,458
Depletion, depreciation, and impairment	9	273,550	196,994	513,561	333,301
Share-based compensation	13	-	6,668	-	9,851
General and administrative		216,900	140,974	338,843	240,830
		2,146,848	539,275	3,443,587	954,440
Operating income (loss)		(117,383)	56,414	297,691	16,190
Interest and other finance costs	11	127,266	135,941	231,680	266,381
Accretion on decommissioning provision	12	60,407	6,604	108,634	12,842
Gains	19	(771,245)	(990,918)	(771,245)	(990,918)
Comprehensive Income		\$ 466,189	\$ 904,787	\$ 728,622	\$ 727,885
Income (loss) per share					
- Basic	16	\$ 0.01	0.03	\$ 0.01	0.02
- Diluted	16	\$ 0.01	0.03	\$ 0.01	0.02

See accompanying notes to the Interim Financial Statements

Interim Statement of Changes in Equity (unaudited)

	Note	Outstanding Common Shares	Share Capital	Warrants	Contributed Surplus	Accumulated Other Comprehensive Income	Accumulated Deficit	Shareholders' Equity (Deficiency)
Balance at January 1, 2017		26,372,311	\$ 10,243,391	\$ 311,126	\$ 3,120,034	\$ (14,013)	\$ (15,492,956)	\$ (1,832,418)
Net income for the period		-	-	-	-	-	727,885	727,885
Issue of share capital	14	19,820,000	991,000	-	-	-	-	991,000
Share capital costs	14	-	(58,500)	-	-	-	-	(58,500)
Share-based compensation	13	-	-	-	9,851	-	-	9,851
Expired warrants	15	-	-	(214,963)	214,963	-	-	-
Balance at June 30, 2018		46,192,311	11,175,891	96,163	3,344,848	(14,013)	(14,765,071)	(162,182)
Net loss for the period		-	-	-	-	-	(7,649,364)	(7,649,364)
Share issue costs	14	-	(2,500)	-	-	-	-	(2,500)
Issue of share capital proceeds received in advance	14	-	366,000	-	-	-	-	366,000
Share-based compensation	13	-	-	-	66,311	-	-	66,311
Balance at December 31, 2018		46,192,311	11,539,391	96,163	3,411,159	(14,013)	(22,414,435)	(7,381,735)
Net loss for the period		-	-	-	-	-	728,622	728,622
Issue of share capital	14	10,580,000	529,000	-	-	-	-	529,000
Share issue costs	14	-	(5,100)	-	-	-	-	(5,100)
Issue of share capital proceeds received in advance	14	-	(366,000)	-	-	-	-	(366,000)
Warrants	15	-	(256,503)	160,340	96,163	-	-	-
Balance at June 30, 2019		56,772,311	\$ 11,440,788	\$ 256,503	\$ 3,507,322	\$ (14,013)	\$ (21,685,813)	\$ (6,495,213)

See accompanying notes to the Interim Financial Statements

Interim Statement of Cash Flows (unaudited)

		Three months ended June 30,		Six months Ended June 30,	
	Note	2019	2018	2019	2018
Operating activities					
Comprehensive Income (loss)		\$ 466,189	\$ 904,787	\$ 728,622	\$ 727,885
Adjustments for non-cash and other items:					
Depletion, depreciation, and impairment	9	273,550	6,668	513,561	9,851
Share based compensation	13	-	196,994	-	333,301
Accretion on decommissioning provision	12	60,407	6,604	108,634	12,842
Gains	19	(771,245)	(990,918)	(771,245)	(990,918)
		28,901	124,135	579,572	92,961
Change in non-cash working capital balances:					
Change in trade and other receivables		(386,211)	(434,211)	(2,550,723)	(519,216)
Change in prepaid expense		(150,672)	(158,304)	(145,738)	(158,304)
Change in inventory		43,342	(216,095)	(73,095)	(201,569)
Change in trade and other payables		1,826,988	778,182	3,716,812	1,084,022
Cash flow from (used in) operating activities		1,362,349	93,707	1,526,828	297,894
Investing activities					
Property, plant and equipment expenditures	9	(640,404)	(1,065,168)	(873,211)	(1,605,517)
Acquisitions	7, 9	(550,000)	-	(550,000)	-
Proceeds from disposition of property, plant and equipment	8,9	315,322	-	315,322	-
Cash flow from (used in) investing activities		(875,082)	(1,065,168)	(1,107,889)	(1,605,517)
Financing activities					
(Repayments) draws on credit facility	11	(549,729)	-	(626,897)	(60,000)
Issue of share capital (net of share issue costs)	14	145,900	932,500	523,900	932,500
Issue of share capital received in advance	14	-	125,000	(366,000)	300,000
Cash advance for shareholders' equity		-	(90,000)	-	(90,000)
Change in non-cash working capital		134,517	-	134,517	-
Cash flow from (used in) financing activities		(269,312)	967,500	(334,480)	1,082,500
Change in cash		217,955	(3,961)	84,459	(225,123)
Cash (indebtedness) balance, beginning of year		44,128	(5,544)	177,624	125,618
Cash (indebtedness) balance, end of year		262,083	(9,505)	262,083	(99,505)
Cash interest paid		\$ 127,266	\$ 135,941	\$ 231,680	\$ 266,381

See accompanying notes to the Interim Financial Statements

Notes to the Interim Financial Statements (unaudited)

June 30, 2019

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 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 700, 1300 – 8th Street SW, Calgary, Alberta, Canada, T2R 1B2.

2. Going Concern

These Interim 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 June 30, 2019, the Corporation has a working capital deficiency of \$7,484,045 (December 31, 2018 – \$7,648,144), and an accumulated deficit of \$21,685,813 (December 31, 2018 – \$22,414,435). There is a material risk that the Corporation will be unable to meet its financing obligations including payments of outstanding interest and principal balances on its credit facilities and as at June 30, 2019, the Corporation was in compliance with all of its covenants (Note 11). Management continually monitors the Corporation’s financing requirements. In June 2018 and December 2018, the Corporation acquired an aggregate 35 percent working interest in producing properties and in June of 2019, the Corporation acquired an incremental 15 percent working interest in the same producing properties (Note 7) to fund its ongoing operations and assist in the repayment of debt. The Corporation also disposed non-core assets and related liabilities. Proceeds were used to repay debt. Management is continuously engaged in discussions with existing shareholders and creditors on proposed transactions and agreements that would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following June 30, 2019.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at June 30, 2019, 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.

On April 30, 2019, the Corporation and its lender signed an amending agreement (the “Second Amending Agreement”) with respect to the Amended Credit Facilities (Note 11).

On September 8, 2017, Corporation entered into a Quitclaim (the “Quitclaim”) with its lender (Note 11) which provided for the transfer of title in the petroleum and natural gas assets and interests owned by the Corporation as satisfaction for all indebtedness and obligations to the lender. In conjunction with the Quitclaim, the Corporation also entered into a Forbearance Agreement that stated that the lender would refrain from enforcing the Quitclaim or any of the following rights:

- Terminate the Amended Credit Facilities;
- Cease to make available or extend any such Amended Credit Facilities;
- Accelerate payment of the Amended Credit Facilities; or,
- Appoint a receiver to manage the Corporation’s assets.

As part of the Second Amending Agreement, both the Forbearance and Quitclaim shall remain in effect until April 30, 2020.

The Interim 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

Notes to the Interim Financial Statements (unaudited)

June 30, 2019

appropriate and the Corporation is unable to meet its obligations as they fall due, the preparation of these financial statements on a going concern basis may not be appropriate and adjustments to the carrying amounts of the Corporation's assets, liabilities, revenues, expenses, and balance sheet adjustments may be necessary. Such adjustments could be material.

3. Basis of Preparation

The Corporation prepares its Interim Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These Interim Financial Statements have been prepared in accordance with IFRS applicable to the preparation of Interim Financial Statements, IAS 34 – Interim financial reporting ("IAS 34").

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

The Interim Financial Statements of the Corporation follow the same accounting policies and basis of presentation as described in note 4 of the 2018 audited financial statements. These Interim Financial Statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2018.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Interim 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. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Additional information on these estimates and judgements are disclosed in note 3(d) of the 2018 audited financial statements.

5. Summary of Significant Accounting Policies

The Interim Financial Statements of the Corporation follow the same accounting policies and basis of presentation as described in note 4 of the 2018 audited financial statements.

The Corporation is still assessing and evaluating the impact of adopting IFRS 16, which replaced IAS 17 – Leases and related interpretations, effective January 1, 2019. Prospera does not anticipate a material impact to the Interim Financial Statements as a result of adoption. The Corporation plans on utilizing the modified retrospective approach. The modified retrospective approach does not require prior period comparative information to be restated, rather the cumulative effect of the change is recorded as of the date of adoption. The Corporation anticipates establishing its accounting policy in accordance with IFRS 16 as follows:

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

Lessee

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

Assets and liabilities recognized in respect of leases are recorded on a discounted basis. Lease liabilities consist of the net present value of the aggregate fixed lease payments, as defined by IFRS 16. Where the rate implicit in a

Notes to the Interim Financial Statements (unaudited)

June 30, 2019

lease is not readily determinable, lease payments are discounted using the Corporation's incremental borrowing rate. ROU assets are recognized at the amount corresponding to the amount of the initial lease liability. Lease payments in respect of short-term leases with terms of less than twelve months, or in respect of leases for which the underlying asset is of low value, are expensed as incurred.

Lessor

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

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

Adoption

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

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

6. Trade and Other Receivables

The Corporation's trade and other receivables are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Corporation's trade and other receivables include amounts due from the sale of petroleum and natural gas. The Corporation's maximum exposure to credit risk at June 30, 2019 is in respect of \$3,637,105 (December 31, 2018 - \$1,086,382) of trade and other receivables.

The Corporation's trade and other receivables consist of:

	As at	
	June 30, 2019	December 31, 2018
Trade receivables	3,637,105	1,086,382

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

	As at	
	June 30, 2019	December 31, 2018
0 to 60 days	2,554,613	817,632
61 to 90 days	99,769	97,761
Over 90 days	982,723	170,989
Total trade receivables	3,637,105	1,086,382

Notes to the Interim Financial Statements (unaudited)

June 30, 2019

7. Business Combination

a) 15 percent Working Interest

On May 21, 2019, the Corporation completed an acquisition of an additional 15% net working interest from a joint venture partner in the southwest Saskatchewan Hearts Hills and Luseland properties. The purchase price was satisfied by a reduction of the vendors arrears for operational costs of \$500,000 and \$50,000 cash advanced by an Insider of the Corporation.

The acquisition was accounted for as a business combination using the acquisition method of accounting as follows:

	2019
Fair value of net assets acquired	
Property and equipment	1,517,966
Provision for decommissioning	(967,966)
Total net assets acquired	550,000
Consideration	
Forgiveness of participating interest holder's charges in arrears	500,000
Cash	50,000
Total purchase price	50,000

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

The fair value of the provision for decommissioning was determined using estimates of the timing and future costs associated with plugging, abandonment and site remediation costs of the petroleum and natural gas assets acquired, discounted at a credit-adjusted rate (12 percent) in accordance with IFRS 3 Business Combinations and IFRS 13 Fair Value Measurement.

On May 22, 2019, the day immediately following the acquisition date, the provision for decommissioning was re-measured using a long-term risk free rate (2 percent) based on the expected timing of cash flows, in accordance with IAS 37 Provisions, Contingent Liabilities, and Contingent Assets. The result was a \$1,333,996 increase in the provision for decommissioning associated with the acquired petroleum and natural gas assets and the recognition of a \$1,333,996 measurement adjustment as a change in estimate of the provision for decommissioning (refer to note 12).

8. Gain on Disposal of Assets

During the three months ended June 30, 2019, the Corporation disposed certain non-core assets and related liabilities for cash proceeds of \$315,322 (net of customary adjustments) resulting in a gain on disposal of \$236,511. The assets consist of the Corporation's interests within the Silverdale Cash Generating Units ("CGU").

	Three months-ended June 30		Six months-ended June 30	
	2019	2018	2019	2018
Proceeds of Disposition	315,322	-	315,322	-
Property and equipment	2,171,490	-	2,171,490	-
Accumulated depletion & depreciation	(2,059,621)	-	(2,059,621)	-
Net carrying value	111,869	-	111,869	-
Decommissioning provision	(33,058)	-	(33,058)	-
Book value of net assets disposed	78,811	-	78,811	-
	236,511	-	236,511	-

Notes to the Interim Financial Statements (unaudited)

June 30, 2019

9. Property and Equipment

	Petroleum and natural gas assets	Administrative assets	Total
<i>Cost:</i>			
Balance at December 31, 2017	13,310,524	16,061	13,326,585
Additions to property and equipment	844,614	-	844,614
Acquisitions	2,373,587	-	2,373,587
Dispositions	(235,083)	-	(235,083)
Additions/revisions to future estimated decommissioning provision (Note 12)	4,999,936	-	4,999,936
Balance at December 31, 2018	21,293,578	16,061	21,309,639
Additions to property and equipment	873,429		873,429
Acquisitions	1,517,966		1,517,966
Dispositions	(2,171,490)		(2,171,490)
Additions/revisions to future estimated decommissioning provision (Note 12)	1,333,996		1,333,996
Balance as at June 30, 2019	22,847,479	16,061	22,863,540

	Oil and Gas Properties	Corporate Assets	Total
<i>Accumulated depletion, depreciation and impairments:</i>			
Balance at December 31, 2017	6,611,304	16,061	6,627,365
Depletion and depreciation charge	1,903,089	-	1,903,089
Impairment charge	3,346,048	-	3,346,048
Dispositions	(232,116)	-	(232,116)
Balance at December 31, 2018	11,628,325	16,061	11,644,386
Depletion and depreciation charge	513,561	-	513,561
Dispositions	(2,059,621)	-	(2,059,621)
Balance as at June 30, 2019	10,082,265	16,061	10,098,326

<i>Net carrying value</i>			
At December 31, 2018	9,665,253	-	9,665,253
At June 30, 2019	12,765,214	-	12,765,214

Future development costs

The June 30, 2019 depletion expense calculation included \$3,516,600 (June 30, 2018 – \$3,407,829) for estimated future development costs associated with the Corporation's proved and probable reserves.

Notes to the Interim Financial Statements (unaudited)

June 30, 2019

10. Trade and Other Payables

The Corporation's trade and other payables consist of:

	As at	
	June 30, 2019	December 31, 2018
Trade payables	7,815,180	4,148,575
Accrued liabilities and other payables	237,875	213,778
Goods and Services Tax payable	84,049	57,939
	8,137,104	4,420,292

Trade payables are non-interest bearing and are normally settled on 30-day terms.

11. Credit Facilities

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

	Debt	Derivative Liability	Total
Balance at December 31, 2017	5,269,776	15,391	5,285,167
Amounts drawn	300,000	-	300,000
Cash repayments	(310,000)	-	(310,000)
Disposition proceeds	(125,000)	-	(125,000)
Reversal of accretion	(219,651)	-	(219,651)
Expiry of share purchase warrants	-	(15,391)	(15,391)
Balance at December 31, 2018	4,915,125	-	4,915,125
Amount drawn	-	-	-
Cash repayments	(626,897)	-	(626,897)
Debt forgiveness	(400,000)	-	(400,000)
Balance as at June 30, 2019	3,888,228	-	3,888,228

As at June 30, 2019, \$3,737,945 (December 31, 2018 - \$4,537,945) was outstanding in relation to Credit facility A and \$150,283 (December 31, 2018 - \$377,180) was outstanding in relation to Credit Facility B. Total outstanding as at June 30, 2019 is \$3,888,228.

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.

Borrowing under Credit Facility A and B bears interest at 9.5 percent per annum.

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 percent per annum effective upon the Corporation making a \$400,000 lump sum principal repayment funded from the sale proceeds of the Silverdale CGU (Note 8) with any shortfall made up from the Corporation's working capital;

Notes to the Interim Financial Statements (unaudited)

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- 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, that was entered into on September 8, 2017, 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 percent per annum;
- The Corporation shall be subject to the following amended covenants:
 - A 0.3:1.0 current ratio (defined under non-GAAP measures);
 - A Trailing Cash Flow (EBITDA - defined under non-GAAP measures) 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.

As at June 30, 2019, the Company was in compliance with all of the covenants above.

12. Provision for Decommissioning

	Six Months Ended June 30, 2019	Twelve Months Ended December 31, 2018
Balance - January 1,	9,398,844	1,327,194
Acquisitions	967,966	3,094,355
Dispositions	(33,058)	(105,124)
Additions and revisions to estimates	1,333,996	4,999,936
Accretion	108,634	82,483
Balance – end of period	11,776,382	9,398,844

The Corporation's provision for decommissioning is based on the following estimates and assumptions:

	Six Months Ended June 30, 2019	Twelve Months Ended December 31, 2018
Inflation adjusted undiscounted future cash flows	14,549,131	11,730,546
Annual inflation rate	2%	2%
Settlement of liability occurring in approximately	2 – 16 years	2 – 16 years
Risk free discount rate	1.66 – 2.22 %	1.66 – 2.22 %

13. Share-Based Payment Plans

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 will not exceed 10 percent of the issued and outstanding shares from time to time. The aggregate number of common shares reserved for issuance to any one

Notes to the Interim Financial Statements (unaudited)

June 30, 2019

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

The following table provides a continuity of the share options outstanding at the beginning and end of the following periods:

	Six Months Ended June 30, 2019		Twelve Months Ended December 31, 2018	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at January 1	\$ 0.07	2,350,000	\$ 0.09	1,350,000
Granted	-	-	0.05	1,000,000
Exercised	-	-	-	-
Expired	0.10	(200,000)	-	-
Outstanding at period end	\$ 0.07	2,150,000	\$ 0.07	2,350,000
Exercisable at period end	\$ 0.07	2,150,000	\$ 0.07	2,350,000

The range of exercise prices of the outstanding options and exercisable options as at June 30, 2019 were as follows:

Expiry date	Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price	Weighted-Average Contractual Life Remaining (Years)
Sunday, December 15, 2019	150,000	150,000	\$ 0.07	0.71
Friday, November 20, 2020	1,000,000	1,000,000	\$ 0.05	1.64
Tuesday, December 15, 2020	200,000	200,000	\$ 0.07	1.71
Wednesday, October 6, 2021	800,000	800,000	\$ 0.09	2.52
	2,150,000	2,150,000	\$ 0.07	1.76

14. Issued Capital

Prospera is authorized to issue an unlimited number of Common Shares. The following provides a continuity of outstanding share capital:

	Common Shares	Amount
Shares as at December 31, 2017	26,372,311	\$ 10,243,391
Issue of share capital	19,820,000	991,000
Issue of share capital proceeds received in advance	-	366,000
Share issue costs	-	(61,000)
Shares as at December 31, 2018	46,192,311	-
Issue of share capital	10,580,000	529,000
Issue of share capital proceeds received in advance	-	(366,000)
Share issue costs	-	(5,100)
Issue of share purchase warrants	-	(256,503)
Shares as at June 30, 2019	56,772,311	\$ 11,440,788

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On January 29, 2019, the Corporation completed a non-brokered private placement of 7,560,000 common shares at a price of \$0.05 per share for gross proceeds of \$378,000. A director of the Corporation subscribed for all of the common shares.

On June 18, 2019, the Corporation completed a non-brokered private placement of 3,020,000 units at a price of \$0.05 per unit for aggregate gross proceeds of \$151,000. Each Unit consists of one common share of the Corporation (a "Common Share") and one half Common Share purchase warrant (a "Warrant"). The Warrants will not be listed. Each Warrant shall be exercisable for one half Common Share at a price of \$0.075 per Common Share for a period to and including June 17, 2021. The proceeds of the private placement will be used for working capital and continuing capital programs including the 15 percent interest purchased on the Luseland, Hearts Hill and Cuthbert properties. A finders fee of \$5,100 was paid to an arms length party.

15. Share Purchase Warrants

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

	Six Months Ended June 30, 2019			Twelve Months December 31, 2018		
	Weighted Average Exercise Price	No. of Warrants	Amount	Weighted Average Exercise Price	No. of Warrants	Amount
Outstanding at January 1	\$ 0.14	1,522,285	\$ 96,163	\$ 0.12	9,220,618	\$ 311,126.00
Expired	0.14	(1,522,285)	(96,163)	0.12	(7,698,333)	(214,963.00)
Issued	0.11	9,070,000	256,503	-	-	-
Outstanding at period end	\$ 0.11	9,070,000	\$ 256,503	\$ 0.14	1,522,285	\$ 96,163.00

All share purchase warrants outstanding at June 30, 2019 are exercisable at both \$0.12 and \$0.075 per share until January 25, 2020 and June 17, 2021, respectively.

16. Earnings (Loss) per Share

The following table reflects the earnings/loss and share data used in the basic and diluted earnings per share calculations:

	Three months-ended June 30		Six months-ended June 30	
	2019	2018	2019	2018
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	466,189	904,787	728,622	727,885
Weighted average number of shares for the purposes of basic earnings per share	54,154,978	33,639,644	52,741,261	29,985,902
Effect of dilution	NIL	NIL	NIL	NIL
Weighted average number of shares	54,154,978	33,639,644	52,741,261	29,985,902
Earnings (loss) per share – Basic	0.01	0.03	0.01	0.02
Earnings (loss) per share – Diluted	0.01	0.03	0.01	0.02

Notes to the Interim Financial Statements (unaudited)

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17. Related Party Transactions

- a) During the three and six months ended June 30, 2019, \$0 and \$15,000, respectively, was expensed for legal services provided by a law firm of which a director of the Corporation is a partner (June 30, 2018 – \$15,000 and \$35,000, respectively). Included in trade and other payables at June 30, 2019 is \$81,204 (December 31, 2018 – \$123,044) owing to this law firm.
- b) During the three and six months ended June 30, 2019, management, consulting and engineering fees of \$36,000 and \$72,000, respectively, were included in general and administrative expenses, were charged by an officer of the Corporation and by a Corporation controlled by an officer (June 30, 2018 – \$21,000 and \$42,000, respectively). Included in trade and other payables at June 30, 2019 is \$104,770 (December 31, 2018 – \$64,800) owing to this officer.

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

18. Financial Risk Management and Capital Management

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

Credit Risk

The Corporation is exposed to credit risk in relation to its cash and trade and other receivables. Cash is held with highly-rated Canadian banks. Therefore, the Corporation does not believe these financial instruments are subject to material credit risk. The Corporation's trade and other receivables include amounts due from the sale of petroleum and natural gas (Note 20). The Corporation's production is sold to a variety of purchasers under normal industry sale and payment terms. Accounts 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 June 30, 2019, the Corporation has a working capital deficiency of \$7,484,045 and an accumulated deficit of \$21,685,813. The Corporation's ability to continue as a going concern (Note 2) is continuously dependent on the successful response of the waterflood program in the Red Earth CGU, accessing additional financing and achieving profitable operations.

The Corporation's financial liabilities as at June 30, 2019 total \$12,025,332, comprised of \$8,137,104 of trade and other payables and \$3,888,228 of credit facilities, all of which are classified as current liabilities.

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 June 30, 2019 as there are no investments of excess cash in short-term money market investments and credit facilities are at fixed rates of interest.

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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 June 30, 2019.

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 June 30, 2019.

For the six months ended June 30, 2019, if production remained constant and the commodity prices earned by the Corporation changed by 10 percent, the Corporation's reported loss would vary by approximately \$374,128 (2018 - approximately \$105,910).

Capital Management

The Corporation's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, to sustain the development of the Corporation's current capital projects and for future development of the Corporation. The Corporation monitors its working capital and expected capital spending and raises additional equity by the issue of share capital to manage its development plans. The Corporation has no externally imposed capital requirements apart from the banking covenants on the Corporation's credit facilities (Note X).

The Corporation continues to assess additional petroleum and natural gas projects and plans to raise additional debt or equity amounts as needed to fund acquisitions and to maintain sufficient working capital to meet administrative expenditures. The Corporation considers its capital structure to be working capital and shareholders' deficiency. Management reviews its capital management approach on an ongoing 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 three and six months ended June 30, 2019. The Corporation's working capital deficiency at June 30, 2019 was \$7,484,045 (December 31, 2018 – \$7,648,144). The Corporation's shareholders' deficiency at June 30, 2019 was \$6,495,213 (December 31, 2018 – \$7,381,735).

19. Gains

	Three months-ended June 30		Six months-ended June 30	
	2019	2018	2019	2018
Gain on disposition	236,511	-	236,511	-
Gain on acquisition	-	990,918	-	990,918
Gain on derecognition of debt	400,000	-	400,000	-
Gain on trade payable settlement	119,326	-	119,326	-
Gain on inventory	15,407	-	15,407	-
	771,245	990,918	771,245	990,918

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20. Petroleum and Natural Gas Sales

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

	Three months-ended June 30		Six months-ended June 30	
	2019	2018	2019	2018
Petroleum and natural gas sales:				
Natural gas	3,318	3,885	5,355	8,659
Oil	2,261,040	638,210	4,071,276	1,021,630
Total petroleum and natural gas sales	2,264,358	642,095	4,076,631	1,030,288

The Corporation sells its petroleum and natural 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 three and six months ended period, 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.

21. Subsequent Event

Subsequent to the quarter, Prospera Energy Inc.'s president and chief executive officer, Burkhard Franz, suddenly and unexpectedly passed away. Sarshar Ahmad, who has been a senior consulting geologist to the Corporation, will serve as interim president and chief executive officer.

On August 27, 2019 Sarshar Ahmad, CEO and Savi Franz, CFO were appointed to the board of directors.