

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



Interim Financial Statements

June 30, 2020 and 2019

(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, 2020	December 31, 2019
ASSETS			
Current assets			
Cash		184,623	469,431
Trade and other receivables	6	2,448,417	2,103,856
Prepaid and other current assets		417,261	417,261
Inventory		171,870	261,584
		3,222,171	3,252,132
Non-current assets			
Property and equipment	7	11,680,768	12,363,483
Total assets		\$ 14,902,939	\$ 15,615,615
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other payables	8	\$ 9,264,230	\$ 8,088,457
Credit facilities	9	1,954,099	2,412,424
		11,218,329	10,500,881
Non-current liabilities			
Provision for decommissioning	10	12,263,314	12,139,284
Total liabilities		23,481,643	22,640,165
Shareholders' deficiency			
Shareholders' capital	12	11,649,956	11,649,956
Share purchase warrants	12	297,834	297,834
Contributed surplus		3,563,471	3,549,981
Accumulated other comprehensive income		(14,013)	(14,013)
Accumulated deficit		(24,075,952)	(22,508,308)
		(8,578,704)	(7,024,550)
Total shareholders' deficiency and liabilities		\$ 14,902,939	\$ 15,615,615

See accompanying notes to the Interim Financial Statements

Going Concern (Note 2)

Subsequent Events (Note 18)

Approved and authorised by the Board of Directors

Signed "Sarshar Ahmad", Director
Signed "Savi Franz", Director

Interim Statement of Comprehensive Income (unaudited)

		Six Months Ended June 30,	
	Note	2020	2019
Revenue			
Petroleum and natural gas sales	17	\$ 1,570,755	\$ 4,076,631
Royalties		(52,043)	(335,353)
		1,518,712	3,741,278
Expenses			
Operating and production		2,010,848	2,591,182
Depletion, depreciation, and impairment	7	697,980	513,561
Share-based compensation		13,490	-
General and administrative		248,244	338,843
		2,970,561	3,443,586
Operating income (loss)		(1,451,849)	297,692
Interest costs		66,675	231,680
Finance costs		-	-
Accretion on decommissioning provision	10	124,031	108,634
Gains		(75,000)	(771,245)
Comprehensive Income		\$ (1,567,555)	\$ 728,623
Income (loss) per share			
- Basic	13	\$ (0.03)	0.02
- Diluted	13	\$ (0.03)	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 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		10,580,000	529,000					529,000
Issue of share capital proceeds received in advance			(366,000)					(366,000)
Share capital costs			(5,100)					(5,100)
Warrants			(256,503)	160,340				
Share-based compensation								-
Expired warrants					96,163			96,163
Balance at June 30, 2019		56,772,311	11,440,788	256,503	3,507,322	(14,013)	(21,685,813)	(6,399,050)
Net loss for the period		-	-	-	-	-	(822,586)	(822,586)
Issue of share capital		8,350,000	250,500	-	-	-	-	250,500
Issue of share capital proceeds received in advance			-					-
Share capital costs		-	-	-	-	-	-	-
Warrants			(41,331)	137,494				
Share-based compensation		-	-		42,659	-	-	42,659
Expired warrants		-	-	(96,163)	-	-	-	(96,163)
Balance at December 31, 2019		65,122,311	11,649,957	297,834	3,549,981	(14,013)	(22,508,399)	(7,024,640)
Net loss for the period		-	-	-	-	-	(1,567,555)	(1,567,555)
Issue of share capital		-	-	-	-	-	-	-
Share issue costs		-	-	-	-	-	-	-
Issue of share capital proceeds received in advance		-	-	-	-	-	-	-
Warrants		-	-	-	-	-	-	-
Share-based compensation		-	-	-	13,490	-	-	13,490
Expired warrants		-	-	-	-	-	-	-
Balance at June 30, 2020		65,122,311	\$ 11,649,957	\$ 297,834	\$ 3,563,471	\$ (14,013)	\$ (24,075,954)	\$ (8,578,705)

See accompanying notes to the Interim Financial Statements

Interim Statement of Cash Flows (unaudited)

		Six months ended June 30,	
	Note	2020	2019
Operating activities			
Comprehensive Income (loss)		\$ (1,567,555)	\$ 728,623
Adjustments for non-cash and other items:			
Depletion, depreciation, and impairment	9	697,980	513,561
Goodwill impairment		-	-
Share based compensation	11	13,490	-
Finance costs		66,675	-
Accretion on decommissioning provision	10	124,031	108,634
Gains		(75,000)	(771,245)
		(740,379)	579,573
Change in non-cash working capital balances:			
Change in trade and other receivables		(344,561)	(2,550,723)
Change in prepaids		(0)	(145,738)
Change in inventory		89,714	(73,095)
Change in trade and other payables		1,175,683	3,716,812
Cash flow from (used in) operating activities		180,457	1,526,829
Investing activities			
Assets held for sale			-
Property, plant and equipment expenditures	7	(15,265)	(873,211)
Acquisitions		-	(550,000)
Proceeds from disposition of property, plant and equipment		-	315,322
Change in non-cash working capital		-	-
Cash flow from (used in) investing activities		(15,265)	(1,107,889)
Financing activities			
(Repayments) draws on credit facility	9	(383,325)	(626,897)
Issue of share capital (net of share issue costs)		-	523,900
Issue of share capital received in advance		-	(366,000)
Interest expense		(66,675)	-
Change in non-cash working capital		-	134,517
Cash flow from (used in) financing activities		(450,000)	(334,480)
Change in cash		(284,808)	84,460
Cash (indebtedness) balance, beginning of year		469,431	177,624
Cash (indebtedness) balance, end of year		184,623	262,084
Cash interest paid		\$ 66,675	\$ 231,680

See accompanying notes to the Interim Financial Statements

Notes to the Interim Financial Statements (unaudited)

June 30, 2020

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, 2020, the Corporation has a working capital deficiency of \$7,996,158 (December 31, 2019 – \$7,248,749), and an accumulated deficit of \$24,075,952 (December 31, 2019 – \$22,508,308). 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, 2020, the Corporation was in compliance with all of its covenants (Note 9). 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 during the second quarter of 2019. Proceeds were used to repay debt. Management is continuously engaged in discussions with existing shareholders and creditors on proposed transactions and agreements that would reduce anticipated cash outflows and provide the additional financing required to fund capital and operating expenditures, and to meet obligations as they fall due in the 12 months following September 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, 2020, 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, 2020

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 2019 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, 2019.

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 2019 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 2019 audited financial statements.

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, 2020 is in respect of \$2,448,417 (December 31, 2019 - \$2,103,856) of trade and other receivables.

The Corporation's trade and other receivables consist of:

	As at	
	June 30, 2020	December 31, 2019
Trade receivables	2,448,417	2,103,856

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

Notes to the Interim Financial Statements (unaudited)

June 30, 2020

	As at	
	June 30, 2020	December 31, 2019
0 to 60 days	513,548	215,195
61 to 90 days	145,948	27,423
Over 90 days	1,788,921	1,861,238
Total trade receivables	2,448,417	2,103,856

The majority of receivables over 90 days are held and offset by payables to working interest owners.

7. Property and Equipment

	Petroleum and natural gas assets	Administrative assets	Total
<i>Cost:</i>			
Balance at December 31, 2018	21,293,578	16,061	21,309,639
Additions to property and equipment	1,244,881		1,244,881
Acquisitions	1,739,433		1,739,433
Dispositions	(2,150,724)		(2,150,724)
Additions/revisions to future estimated decommissioning provision	1,367,994		1,367,994
Balance at December 31, 2019	23,495,162	16,061	23,511,223
Additions to property and equipment	15,264		15,264
Balance as at June 30, 2020	23,510,426	16,061	23,526,487
<i>Accumulated depletion, depreciation and impairments:</i>			
Balance at December 31, 2018	11,628,325	16,061	11,644,386
Depletion and depreciation charge	1,646,541		1,646,541
Dispositions	(2,143,187)		(2,143,187)
Balance at December 31, 2019	11,131,679	16,061	11,147,740
Depletion and depreciation charge	697,980	-	697,980
Dispositions	-	-	-
Balance as at June 30, 2020	11,829,659	16,061	11,845,720
<i>Net carrying value</i>			
At December 31, 2019	12,363,483	-	12,363,483
At June 30, 2020	11,680,767	-	11,680,767

Future development costs

The June 30, 2020 depletion expense calculation included \$6,763,000 (June 30, 2019 – \$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, 2020

8. Trade and Other Payables

The Corporation's trade and other payables consist of:

	As at	
	June 30, 2020	December 31, 2019
Trade payables	9,105,602	7,736,034
Accrued liabilities and other payables	158,628	237,375
Goods and Services Tax payable	-	115,047
	9,264,230	8,088,457

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

9. Credit Facilities

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

	Debt	Derivative Liability	Total
Balance at December 31, 2018	4,915,125	-	4,915,125
Amounts drawn	-	-	-
Cash repayments	(1,602,701)	-	(1,602,701)
Disposition proceeds	-	-	-
Debt forgiveness	(900,000)	-	(900,000)
Expiry of share purchase warrants	-	-	-
Balance at December 31, 2019	2,412,424	-	2,412,424
Amount drawn	-	-	-
Cash repayments	(383,325)	-	(383,325)
Debt forgiveness	(75,000)	-	(75,000)
Balance as at June 30, 2020	1,954,100	-	1,954,099

As at June 30, 2020, \$1,954,100 (December 31, 2019 - \$2,412,424) was outstanding in relation to Credit facility A and \$nil (December 31, 2019 - \$nil) was outstanding in relation to Credit Facility B. Total outstanding as at June 30, 2020 is \$1,954,100.

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 9.0 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)

June 30, 2020

- 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, 2020, the Company was in compliance with all of the covenants above.

10. Provision for Decommissioning

	As at	
	June 30, 2020	December 31, 2019
Balance - January 1,	12,139,284	9,398,844
Acquisitions	-	1,189,433
Dispositions	-	(37,760)
Additions and revisions to estimates	-	1,367,994
Accretion	124,031	220,773
Balance – end of period	12,263,314	12,139,284

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

	As at	
	June 30, 2020	December 31, 2019
Inflation adjusted undiscounted future cash flows	14,840,113	14,549,131
Annual inflation rate	2%	2%
Settlement of liability occurring in approximately	2 – 16 years	2 – 16 years
Risk free discount rate	1.60 – 2.00 %	1.66 – 2.22 %

Notes to the Interim Financial Statements (unaudited)

June 30, 2020

11. 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 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, 2020	
	Weighted Average Exercise Price	No. of Options
Balance, December 31, 2018	\$ 0.07	2,350,000
Granted	0.05	2,050,000
Expired	0.10	(350,000)
Balance, December 31, 2019	\$ 0.06	4,050,000
Granted	-	-
Expired	-	-
Balance, June 30, 2020	\$ 0.06	4,050,000

The range of exercise prices of the outstanding options and exercisable options as at June 30, 2020 were as follows:

Expiry date	Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price	Weighted-Average Contractual Life Remaining (Years)
November 20, 2020	1,000,000	1,000,000	\$ 0.05	0.39
December 15, 2020	200,000	200,000	\$ 0.07	0.46
October 6, 2021	800,000	800,000	\$ 0.09	1.27
October 8, 2024	1,000,000	1,000,000	\$ 0.05	4.28
December 5, 2024	1,050,000	1,050,000	\$ 0.05	4.44
	4,050,000	4,050,000		2.17

Notes to the Interim Financial Statements (unaudited)

June 30, 2020

12. 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, 2018	46,192,311 -	11,539,391
Issue of share capital	18,930,000	779,500
Issue of share capital proceeds received in advance	-	(366,000)
Share issue costs	-	(5,101)
Issue of share purchase warrants	-	(297,834)
Shares as at December 31, 2019	65,122,311 -	11,649,956
Issue of share capital	-	-
Issue of share capital proceeds received in advance	-	-
Share issue costs	-	-
Issue of share purchase warrants	-	-
Shares as at June 30, 2020	65,122,311	\$ 11,649,956

Share Purchase Warrants

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

Six Months Ended June 30, 2020				
	Weighted Average Exercise Price	No. of Warrants	Amount	
Balance, December 31, 2018	\$ 0.14	1,522,285	\$	96,163.00
Issued	0.10	13,245,000		297,834
Expired	0.12	(1,522,285)		(96,163)
Balance, December 31, 2019	\$ 0.07	13,245,000	\$	297,834
Issued	-	-		-
Expired	-	-		-
Balance, June 30, 2020	\$ 0.07	13,245,000	\$	297,834

All share purchase warrants outstanding at June 30, 2020 are exercisable at both \$0.075 and \$0.06 per share until June 17, 2021 and December 18, 2020, respectively.

Notes to the Interim Financial Statements (unaudited)

June 30, 2020

13. Earnings (Loss) per Share

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

	Six months-ended June 30	
	2020	2019
Net earnings (loss) used in the calculation of total basic and diluted earnings per share	(1,567,555)	728,623
Weighted average number of shares for the purposes of basic earnings per share	58,148,685	46,192,311
Effect of dilution	NIL	NIL
Weighted average number of shares	58,148,685	46,192,311
Earnings (loss) per share – Basic	(0.03)	0.02
Earnings (loss) per share – Diluted	(0.03)	0.02

14. Related Party Transactions

- During the six months ended June 30, 2020, nil, was expensed for legal services provided by a law firm of which a former director of the Corporation is a partner (June 30, 2019 - \$35,000). Included in trade and other payables at June 30, 2020 is \$28,086 (June 30, 2019 – \$81,204) owing to this law firm.
- During the six months ended June 30, 2020, management, consulting and engineering fees of \$nil were included in general and administrative expenses, were charged by an officer of the Corporation (June 30, 2019 – \$72,000). Included in trade and other payables at June 30, 2020 is \$nil (June 30, 2019 – \$104,770) 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.

15. Personnel Expenses

The Corporation's statement of loss and comprehensive loss is prepared primarily by nature of expense, with the exception of \$157,490 of salaries and benefits for management personnel which are included in general and administrative expenses for the period ended June 30, 2020.

Key management personnel include executive officers and non-executive directors. Executive officers are paid a salary and participate in the Corporation's stock option program. The executive officers include the Chief Executive Officer and Chief Financial Officer. Non-executive directors also participate in the Corporation's stock option program. Key management compensation is comprised of the following:

	Six months- ended June 30
	2020
Salaries and benefits	144,000
Consulting fees	-
Share-based payments	13,490
Deferred share units	-
	157,490

Notes to the Interim Financial Statements (unaudited)

June 30, 2020

16. 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, 2020, the Corporation has a working capital deficiency of \$7,996,158 and an accumulated deficit of \$24,075,952. 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, 2020 total \$11,218,330 comprised of \$9,264,230 of trade and other payables and \$1,954,100 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, 2020 as there are no investments of excess cash in short-term money market investments and credit facilities are at fixed rates of interest.

Foreign currency risk

Management believes the foreign currency risk arising from currency exchange rate fluctuations related to financial instruments held in foreign currencies is negligible as the Corporation held no foreign denominated financial instruments as at June 30, 2020.

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, 2020.

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 9).

Notes to the Interim Financial Statements (unaudited)

June 30, 2020

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 six months ended June 30, 2020. The Corporation's working capital deficiency at June 30, 2020 was \$8,400,875 (December 31, 2019 – \$7,248,749). The Corporation's shareholders' deficiency at June 30, 2020 was \$24,480,669 (December 31, 2019 – \$22,508,308).

17. Petroleum and Natural Gas Sales

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

	Six months-ended June 30	
	2020	2019
Petroleum and natural gas sales:		
Natural gas	9,905	5,355
Oil	1,570,755	4,071,276
Total petroleum and natural gas sales	1,580,660	4,076,631

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 nine 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.

18. Subsequent Event

Subsequent to the quarter, on August 17, 2020 Prospera has signed an agreement for the acquisition of an additional 40% net working interest from participating interest holders in the southwest Saskatchewan Hearts Hills and Luseland properties. The purchase price will be satisfied by a reduction of the vendors arrears for operational costs of \$1,017,711.00, subject to normal accounting adjustments. Prospera will now increase its overall net working interest in these properties from 50% to 90%, a 450% increase from the 20% net working interest that was originally acquired on June 11, 2018. The properties are located approximately 330 kilometers east of Calgary.