Prospera Energy Inc.

(formerly Georox Resources Inc.)

Condensed Interim Financial Statements

March 31, 2019 and 2018

(in Canadian dollars)

The accompanying unaudited condensed interim consolidated 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 Canadian Institute of Chartered Accountants for a review of the condensed interim financial statements by an entity's auditor.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)
Statements of Financial Position
As at March 31

	Note		2019		2018
ASSETS					
Current assets					
Cash		$	44,128	$	-
Trade and other receivables	5		3,250,893		282,820
Prepaid and other current assets			328,490		3,414
Inventory			206,280		15,357
Total current assets			3,829,791		301,591
Non-current assets					
Property and equipment	7		9,658,266		7,132,541
Total assets		$	13,488,057	$	7,434,132
SHAREHOLDERS' DEFICIENCY AND LIABILITIES					
Current liabilities					
Trade and other payables	8	$	6,255,608	$	2,581,841
Credit facilities	9		4,837,957		5,384,776
Bank indebtedness			–		5,544
Derivative liability	9				15,391
Assets held for sale	20		54,723		–
Total current liabilities			11,148,288		7,987,552
Non-current liabilities					
Provision for decommissioning	10		9,447,071		1,362,716
Total liabilities			20,595,359		9,350,268
Shareholders' deficiency					
Share capital	11(a)		11,337,591		10,243,391
Share purchase warrants	11(b)		309,963		311,126
Contributed surplus			3,411,159		3,123,217
Cash advances for shareholders equity					90,000
Accumulated other comprehensive income			(14,013)		(14,013)
Deficit			(22,152,002		(15,669,857)
Total shareholders' deficiency			(7,107,302)		(1,916,136)
Total liabilities and shareholders' deficiency		$	13,488,057	$	7,434,132

Going Concern (Note 2)
Commitment (Note 19)
Subsequent Events (Note 20)

Approved and authorised by the Board of Directors

Signed "Burkhard Franz", Director

Signed "Lorraine McVean", Director

The accompanying notes are an integral part of these financial statements.

PROSPERA ENERGY INC.
(formerly Georox Resources Inc.)
Statements of Loss and Comprehensive Loss
For the three months ended March 31

	Note		2019		2018
Revenues					
Petroleum and natural gas sales	13	$	1,812,273	$	388,194
Royalties			(100,460)		(13,252)
			1,711,813		374,942
Expenses					
Operating			934,785		175,819
General and administrative	14(a)		121,943		99,856
Depletion and depreciation	7		240,011		136,307
Share-based payments	11(c)		–		3,183
			1,296,739		415,165
Operating loss			415,074		(40,223)
Finance recovery (expense)	15		(152,641)		(136,678)
Profit (loss) for the quarter			262,433		(176,901)
Other comprehensive loss					
Net change in fair value of available for sale financial assets			–		–
Profit (loss) and comprehensive loss		$	262,433	$	(176,921)
Profit (loss) per share	12	$	0.00	$	(0.01)

The accompanying notes are an integral part of these financial statements.

PROSPERA ENERGY INC.
(formerly Georox Resources Inc.)
Statements of Changes in Shareholders' Deficiency
For the three months ended March 31

	Note	2019	2018
Share capital	11(a)		
Balance, January 1		$ 11,539,391	$ 10,243,391
Private placement of units		378,000	–
Warrant FMV		(213,800)	–
Private placement proceeds received in advance	11(a)	(366,000)	–
Share issue costs		–	–
Balance, March 31		11,337,591	10,243,391
Share purchase warrants	11(b)		
Balance, January 1		96,163	311,126
Private placement of units		213,800	–
Expiry of share purchase warrants		–	–
Balance, March 31		309,963	311,126
Contributed surplus			
Balance, January 1		3,411,159	3,120,034
Share-based payments		–	3,183
Expiry of share purchase warrants		–	–
Balance, March 31		3,411,159	3,123,217
Accumulated other comprehensive income			
Balance, January 1		(14,013)	(14,013)
Net change in fair value of available for sale financial assets		–	–
Balance, March 31		(14,013)	(14,013)
Deficit			
Balance, January 1		(22,414,435)	(15,492,956)
Profit (loss) for the quarter		262,433	(176,901)
Balance, March 31		(22,152,002)	(15,669,857)
Total shareholders' deficiency		$ (7,107,302)	$ (1,916,136)

The accompanying notes are an integral part of these financial statements.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)
Statements of Changes in in Cash Flows
For the three months ended March 31

	Note		2018		2018
Cash flows (used in) provided by operating activities					
Profit (loss) for the quarter		$	262,433	$	(176,901)
Add back (deduct) items not affecting cash:					
Depletion, depreciation and impairment	7		240,011		136,307
Share-based payments	14(c)		–		3,183
Finance expense (recovery)	15		152,641		6,238
Change in non-cash working capital:					
Trade and other receivables			(2,164,512)		(85,008)
Prepaid and other current assets			4,934		–
Inventory			(116,437)		14,526
Trade and other payables			1,835,100		305,835
Net cash flows provided by operating activities			214,170		204,180
Cash flows provided by (used in) financing activities					
Share issuance proceeds, net of issue costs	11(a)		378,000		–
Share issuance proceeds received in advance	11(a)		(366,000)		–
Advances of credit facilities	9		–		175,000
Repayment of credit facilities	9		(77,168)		(60,000)
Interest expense	17		(104,415)		–
Cash advance for shareholders' equity			–		90,000
Net cash flows provided by financing activities			(169,583)		205,000
Cash flows provided (used in) by investing activities					
Assets held for sale	20		54,723		–
Expenditures on petroleum and natural gas assets	7		(232,807)		(540,342)
Net cash flows used in investing activities			(178,084)		(540,342)
Change in cash			(133,496)		(131,162)
Cash, beginning of quarter			177,624		125,618
Cash, end of quarter		$	44,128	$	(5,544)
Cash interest paid		$	104,415	$	130,442
Cash taxes paid		$	–	$	–

The accompanying notes are an integral part of these financial statements.

1. Nature of Operations

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

As of March 31, 2019, the Corporation has a working capital deficiency of $7,318,497 (March 31, 2018 – $7,685,961), and an accumulated deficit of $22,152,002 (March 31, 2018 – $15,669,857). 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 March 31, 2019, the Corporation was in breach of all but one 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% working interest in producing properties (Note 7) to fund its ongoing operations and assist in the repayment of debt. Management is 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 March 31, 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 March 31, 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.

The 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 until July 31, 2018:

- 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.

Subsequent to March 31, 2019, the Corporation and its lender signed an amending agreement with respect to the credit facilities (Note 23(c)).

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

3. Basis of Presentation

The unaudited condensed interim financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, including International Accounting Standard 34 – Interim Financial Reporting.

The Corporation has consistently applied the same accounting policies throughout all periods presented (see Note 4 for impact of new accounting policies). These unaudited condensed 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 Policies

On January 1, 2018, the Corporation retrospectively adopted IFRS 9 Financial Instruments ("IFRS 9") which includes new requirements for the classification and measurement of financial assets, a new credit loss impairment model ad 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 unaudited condensed interim financial statements and management applied the provision matrix practical expedient as part of the adoption of the standard. The additional disclosures required by IFRS 9 are detailed in Note 5.

On January 1, 2018, the Corporation adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") using the retrospective method of adoption. The adoption of IFRS 15 did not have a material impact on the Corporation's unaudited condensed interim financial statements and as result, the Corporation did not apply any practical expedients as part of the adoption of IFRS 15. The additional disclosures required by IFRS 15 are detailed in Note 12.

5. Trade and Other Receivables

The Corporation's trade and other receivables are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Corporation's trade and other receivables include amounts due from the sale of petroleum and natural gas. The Corporation's maximum exposure to credit risk at March 31, 2019 is in respect of $3,250,893 (March 31, 2018 – $282,820) of trade and other receivables.

The Corporation's trade and other receivables at March 31 consist of:

	2019	2018
Trade receivables	$ 3,250,893	$ 156,548
Goods and Services Tax receivable and other	–	126,272
	$ 3,250,893	$ 282,820

The Corporation's trade receivables relating to petroleum and natural gas sales are aged at March 31 as follows:

	2019	2018
0 to 60 days	$ 2,184,431	$ 113,312
61 to 90 days	201,092	10,509
Over 90 days	865,370	158,999
	$ 3,250,893	$ 282,820

6. Business Combinations

a) 20% Working Interest

On June 11, 2018 the Corporation completed the acquisition of a 20% working interest in producing properties located in Southwest Saskatchewan and Eastern Alberta for cash consideration of $900,000 plus $173,865 of adjustments for prepaid lease rentals paid by the vendor between the effective and closing dates.

The Corporation was the lead on the transaction, but was supported by an arm's-length private corporation which was responsible for 80% of the purchase price. The Corporation assigned 80% of its rights and obligations under the Agreement to the participant and holds a remaining 20% working interest in the Assets. The Corporation has an option to acquire an additional 10% working interest in these assets for $1,250,000 until December 11, 2019. A value of $nil was assigned to this option.

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 (Note 9)		1,259,139
Provision for decommissioning		(1,728,647)
	$	1,073,865
Consideration:		
Cash	$	1,073,865

The preliminary estimates of fair value were made by management at the time of the closing of the acquisition based on available information at that time. Subsequently, the Corporation received an updated estimation of the fair value of its oil and natural gas reserves by independent engineers which formed the basis for the final fair value of property and equipment. As a result, the Corporation adjusted the preliminary fair value of net assets acquired upon the finalization of fair values and consideration.

The estimated value of the petroleum and natural gas assets acquired was determined using an independent reserve evaluation of total proved and probable petroleum and natural gas reserves discounted at 15%. 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%) in accordance with IFRS 3 Business Combinations and IFRS 13 Fair Value Measurement.

Goodwill results from the corresponding asset recorded upon the recognition of the liability associated with the decommissioning of the acquired assets of which $876,371 has been attributed to the Cuthbert CGU and $382,768 to the Hearts Hill CGU. See Note 9.

On June 12, 2018, the day immediately following the acquisition date, the provision for decommissioning was re-measured using a long-term risk free rate based on the expected timing of cash flows, in accordance with IAS 37 Provisions, Contingent Liabilities, and Contingent Assets. The result was a $2,677,829 increase in the provision for decommissioning associated with the acquired petroleum and natural gas assets and the recognition of a $2,677,829 measurement adjustment as a change in estimate of the provision for decommissioning.

During 2018, the Corporation incurred $52,925 in costs related to the acquisition which are included in general and administrative expenses in the statement of loss and comprehensive loss.

Since June 11, 2018, the acquisition contributed $1,428,391 of petroleum and natural gas sales and $30,359 of operating income (petroleum and natural gas sales less royalties and operating expenses). Had the acquisition occurred on January 1, 2018, the Corporation estimates that total reported petroleum and natural gas sales would have increased by approximately $1,543,500 to $4,638,042 and total reported operating income would have increased by approximately $629,100 to $1,360,875. This pro forma information is not necessarily representative of future revenue and operations.

b) 15% Working Interest

On December 21, 2018 the Corporation completed the acquisition of an additional 15% working interest in the producing properties from the corporate participant which was responsible for 80% of the purchase price of the acquisition described above in Note 7(a). 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 (Note 9)		1,299,708
Provision for decommissioning		(1,365,708)
	$	937,500
Consideration:		
Cash	$	937,500

The estimated value of the petroleum and natural gas assets acquired was determined using an independent reserve evaluation of total proved and probable petroleum and natural gas reserves discounted at 15%. 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%) in accordance with IFRS 3 Business Combinations and IFRS 13 Fair Value Measurement.

Goodwill results from the corresponding asset recorded upon the recognition of the liability associated with the decommissioning of the acquired assets of which $828,394 has been attributed to the Cuthbert CGU and $471,314 to the Hearts Hill CGU. See Note 9.

On December 21, 2018, the day immediately following the acquisition date, the provision for decommissioning was re-measured using a long-term risk free rate based on the expected timing of cash flows, in accordance with IAS 37 Provisions, Contingent Liabilities, and Contingent Assets. The result was a $2,023,452 increase in the provision for decommissioning associated with the acquired petroleum and natural gas assets and the recognition of a $2,023,452 measurement adjustment as a change in estimate of the provision for decommissioning.

During 2018, the Corporation incurred $11,892 of costs related to the acquisition which are included in general and administrative expenses in the statement of loss and comprehensive loss.

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). Had the acquisition occurred on January 1, 2018, the Corporation estimates that total reported petroleum and natural gas sales would have increased by approximately $665,600 to $3,760,142 and total reported operating income would have increased by approximately $147,700 to $879,475. This pro forma information is not necessarily representative of future revenue and operations.

7. Property and Equipment

	Petroleum and natural gas assets	Administrative assets	TOTAL
Cost	$	$	$
Balance, December 31, 2017	13,310,524	16,061	13,326,585
Additions	539,985	–	539,985
Decommissioning revisions (Note 12)	29,643	–	29,643
Balance, March 31, 2018	13,880,152	16,061	13,896,213
Balance, December 31, 2018	21,293,794	16,061	21,309,855
Additions	232,807	–	232,807
Balance, March 31, 2019	21,526,602	16,061	21,542,662
Accumulated depletion, depreciation and impairment			
Balance, December 31, 2017	6,611,304	16,061	6,627,365
Depletion and depreciation	136,307	–	136,307
Balance, March 31, 2018	6,757,611	–	6,763,672
Balance, December 31, 2018	11,628,325	16,061	11,644,386
Depletion and depreciation	240,011	–	240,011
Balance, March 31, 2019	11,868,336	16,061	11,884,397
Net carrying amount			
March 31, 2018	7,132,541	–	7,132,541
March 31, 2019	9,658,266	–	9,658,266

Future development costs

The March 31, 2019 depletion expense calculation included $3.41 million (March 31, 2018 – $3.48 million) for estimated future development costs associated with the Corporation's proved and probable reserves.

8. Trade and Other Payables

		2019		2018
Trade payables	$	5,914,468	$	1,898,664
Accrued liabilities and other payables		237,875		667,974
Goods and Services Tax payable		103,265		15,203
	$	6,255,608	$	2,581,841

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, December 31, 2017		5,269,776		15,391		5,285,167
Amounts advanced under Credit Facility B		175,000		–		175,000
Cash repayments		(60,000)		–		(60,000)
Balance, March 31, 2018	$	5,384,776	$	15,391	$	5,400,167
Balance, December 31, 2018		4,915,125		–		4,915,125
Cash repayments		(77,168)		–		(77,168)
Balance, March 31, 2019	$	4,837,957	$	–	$	4,837,957

As at March 31, 2019, $4,537,945 (March 31, 2018 - $4,847,176) was outstanding in relation to Credit Facility A and $300,012 (March 31, 2018 – $537,600) 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 (Note 2).

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 was 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 barrels of oil equivalent per day ("boepd").

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. As at December 31, 2018, previously accrued default interest, participation and monitoring fees were forgiven by the lender (Note 18).

Subsequent to December 31, 2018, the Corporation and its lender signed an amending agreement with respect to the Amended Credit Facilities (Note 23(c)).

10. Provision for Decommissioning

The Corporation's provision for decommissioning as at March 31, 2019 and 2018 is based on the following estimates and assumptions:

- Total inflation-adjusted undiscounted future cash flows of $11,730,546 (2017 – $1,559,175)
- Annual inflation rate of 2% (2017 – 2%)
- Settlement of the liability occurring in approximately 2 to 16 years (2017 – 2 to 18 years)
- Risk free discount rate of 1.90% to 2.15% (2017 – 1.66% to 2.22%)

	2019	2018
Balance, beginning of quarter	$ 9,398,844	$ 1,327,195
Additions and revisions	–	29,283
Accretion	48,227	6,238
Balance, end of quarter	$ 9,447,071	$ 1,362,716

11. Share Capital

a) Common shares

Authorized

The Corporation is authorized to issue an unlimited number of common shares.

Issued

	Number		Amount
Balance, December 31, 2017	26,372,311	$	10,243,391
Balance, March 31, 2018	26,372,311		10,243,391
Balance, December 31, 2018	46,192,311		11,539,391
Private placement (i)(ii)(iii)	7,560,000		378,000
Private placement proceeds received in advance (Note 23(a))	–		(366,000)
Warrants	–		(213,800)
Balance, March 31, 2019	53,752,311	$	11,337,591

(i) On May 28, 2018, the Corporation completed a non-brokered private placement of 19,700,000 common shares at a price of $0.05 per share for gross proceeds of $985,000. A director of the Corporation subscribed for 3,000,000 of the common shares.

(ii) In connection with the May 28, 2018 non-brokered private placement, the Corporation incurred $61,000 of share issue costs comprised of $55,000 of finders' fees paid in cash and 120,000 common shares valued at $0.05 per share.

(iii) 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.

b) Share purchase warrants

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

	Weighted Average Exercise Price	Number of Share Purchase Warrants		Amount
Balance, December 31, 2017	$ 0.12	9,220,618	$	311,126
Unit private placement (Note 14(a)(i)(ii))	0.14	1,522,285		96,163
Balance, March 31, 2018	0.12	9,220,618		311,126
Balance, December 31, 2018	$ 0.12	9,220,618	$	96,163
Unit private Placement (Note 14 (a)(iii)	0.12	7,650,000		213,800
Balance, March 31, 2019	$ 0.12	9,082,285	$	309,963

All share purchase warrants outstanding at March 31, 2019 are exercisable at $0.14 per share until May 22, 2019 and $0.12 per share until January 25, 2020 respectively.

c) Stock options

The Corporation's stock option plan provides for the granting of options to directors, officers, employees and consultants. Under the terms of the option plan, options issued will not exceed 10% 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.

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

	Number	Weighted-Average Exercise Price
Balance, December 31, 2017	1,350,000	$ 0.09
Balance, March 31, 2018	1,350,000	0.09
Balance, December 31, 2018	2,250,000	0.07
Balance, March 31, 2019	2,350,000	$ 0.07

On December 15, 2017, the Corporation granted 350,000 stock options to directors exercisable at $0.07 per share, of which 150,000 expire on December 15, 2019 and 200,000 expire on December 15, 2020. The options vest as to 1/3 immediately, 1/3 on June 30, 2018 and 1/3 on December 31, 2018. The fair value of the stock options was estimated at $15,888 ($0.045 per option) using the Black-Scholes pricing model (Note 5(b)) and was recognized as share-based payments expense over the vesting periods, of which $126 was recorded in 2017 and $15,762 was recorded in 2018.

On November 20, 2018, the Corporation granted 1,000,000 stock options exercisable at $0.05 per share to certain consultants. The stock options vest immediately and expire on November 20, 2020. The fair value of the options was estimated at $60,400 ($0.06 per option) using the Black-Scholes pricing model (Note 5(b)) and recognized as share-based payments expense on the grant date.

The following table summarizes information about the stock options outstanding and exercisable as at March 31, 2019:

Expiry date	Number of Stock Options Outstanding	Number of Stock Options Exercisable	Exercise Price	Weighted-Average Contractual Life Remaining (Years)
June 9, 2019	200,000	200,000	$ 0.10	0.19
December 15, 2019	150,000	150,000	$ 0.07	0.71
November 20, 2020	1,000,000	1,000,000	$ 0.05	1.64
December 15, 2020	200,000	200,000	$ 0.07	1.71
October 6, 2021	800,000	800,000	$ 0.09	2.52
	2,350,000	**2,350,000**		**1.76**

12. Per Share Amounts

	2019	2018
Profit (loss) for the quarter	$ 262,433	$ (176,901)
Number of common shares, January 1	46,192,311	10,243,391
Effect of common shares issued	7,560,000	-
Basis weighted average number of common shares	53,234,503	25,210,631
Basic and diluted loss per share	$ 0.00	$ (0.01)

All share purchase warrants and stock options were excluded from the diluted per share amounts as their effect is anti-dilutive in loss periods.

13. Petroleum and Natural Gas Sales

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

		2019		2018
Petroleum	$	1,810,236	$	383,420
Natural gas		2,037		4,774
	$	1,812,273	$	388,194

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 quarter, 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.

The Corporation's four major customers represented 78% of petroleum and natural gas revenue for the quarter ended March 31, 2019 (2018 – two major customers represented 75%) and $337,135 of trade receivables (2018 – $114,239 two major customers). See Note 6.

14. Personnel Expenses

a) Salaries, benefits and consulting fees

The Corporation's statement of loss and comprehensive loss is prepared primarily by nature of expense, with the exception of $48,708 for salaries and benefits and $113,000 for consulting fees for management personnel which are included in general and administrative expenses for the quarter ended March 31, 2019 (2018 – $Nil of salaries and benefits and $14,000 of consulting fees).

b) Key management compensation

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

		2019		2018
Consulting fees	$	45,000	$	21,000
Salaries and benefits		21,000		30,000
Share-based payments		1,875		3,183
Deferred share units		37,500		22,250
	$	67,875	$	54,180

During the three months ended March 2019, 75,000 deferred share units ("DSUs") (2018– 33,000) were granted to directors. The fair value DSUs granted in the quarter ended March 31, 2019 was $3,750 (2018 – $5,000) based on the market price of the Corporation's shares on the dates of grant, which is included in general and administrative expense.

	Number of DSUs		Amount
Balance, December 31, 2017	933,241	$	104,026
Granted	33,000		5,000
Balance, March 31, 2018	966,241		109,026
Balance, December 31, 2018	983,869	$	44,274
Granted	75,000		3,750
Revalued	-		11,738
Balance, March 31, 2019	1,058,869	$	59,762

As at March 31, 2019, the Corporation had 1,058,869 DSUs outstanding (March 31, 2018 – 966,241) for which the aggregate fair value of $59,762 (2018 –$109,026) is included in trade and other payables.

15. Finance (Expense) Recovery

		2019		2018
Interest expense	$	(104,414)	$	(130,440)
Accretion of provision for decommissioning (Note 12)		(48,227)		(6,238)
	$	(152,641)	$	(136,678)

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 (Note 11).

16. De-recognition of Debt

In November 2018, the Corporation settled a long standing dispute with the 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.

17. Related Party Transactions

a) During the three months ended March 31, 2019, $15,000 (2018 – $20,000) 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 March 31, 2019 is $138,044 (2018 – $66,066) owing to this law firm.

b) During the quarter ended March 31, 2019, management, consulting and engineering fees of $36,000 (2018 – $21,000), 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 March 31, 2019 is $92,170 (2018 – $52,819) owing to this officer.

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

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:

a) 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. See Note 6.

b) Liquidity risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet its financial liabilities when they become due. Management mitigates liquidity risk by maintaining banking and other borrowing facilities, continuously monitoring forecast and actual cash flows and actively seeking equity financing to assist with projected cash outflows. As at March 31, 2019, the Corporation has a working capital deficiency of $7,318,497 and an accumulated deficit of $22,152,002. The Corporation's ability to continue as a going concern (Note 2) is dependent on the successful completion of the waterflood program in the Red Earth CGU, successful closing of the January 2019 private placement (Note 23(a)), successful renegotiation of its credit facilities (Notes 11 and 23(c)), accessing additional financing and achieving profitable operations.

The Corporation's financial liabilities as at March 31, 2019 total $11,093,565, comprised of $6,255,607 of trade and other payables and $4,837,957 of credit facilities, all of which are classified as current liabilities.

c) 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 December 31, 2018 as there are no investments of excess cash in short-term money market investments and credit facilities are at fixed rates of interest.

Foreign currency risk

Management believes the foreign currency risk arising from currency exchange rate fluctuations related to financial instruments held in foreign currencies is negligible as the Corporation held no foreign denominated financial instruments as at March 31, 2019 and 2018.

Commodity price risk

The nature of the Corporation's operations results in exposure to commodity price fluctuations. The Corporation closely monitors commodity prices to determine the appropriate course of action to be taken. The Corporation does not hedge commodity price risk and has no physical forward price or financial derivatives sales contracts as at March 31, 2019 and 2018 or the years then ended.

For the quarter ended March 31, 2019, if production remained constant and the commodity prices earned by the Corporation changed by 10%, the Corporation's reported loss would vary by approximately $178,809 (2018 – approximately $40,608).

d) 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 11). 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 2018. The Corporation's working capital deficiency at March 31, 2019 was $7,318,497 (March 31, 2018 – $7,685,961). The Corporation's shareholders' deficiency at March 31, 2019 was $7,102,302 (2018 – $1,916,136).

19. Commitment

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

20. Subsequent Events

a) 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 closed on April 30, 2019.

b) Credit facilities

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). 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.

c) Working Interest Acquisition

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.