Prospera Energy Inc.
(formerly Georox Resources Inc.)

Condensed Interim Financial Statements

September 30, 2018 and 2017

(Unaudited)

(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.

As at	Note		***September 30, 2018***		*December 31, 2017*
Assets					
Current assets					
Cash and cash equivalents		$	**-**	$	125,618
Funds held in trust	17		**160,000**		-
Trade and other receivables	5		**1,506,530**		197,813
Investments			**3,414**		3,414
Prepaid expenses			**154,312**		-
Inventory			**236,541**		29,884
Total current assets			**2,060,797**		356,729
Non-current assets					
Property and equipment	7		**15,236,668**		6,699,220
Goodwill	6		**2,731,337**		-
Total assets		$	**20,028,802**	$	7,055,949
Liabilities					
Current liabilities					
Bank indebtedness		$	**16,284**	$	-
Trade and other payables	8		**4,291,565**		2,276,006
Credit facilities	9		**5,234,776**		5,269,776
Derivative liability	9		**-**		15,391
Total current liabilities			**9,542,625**		7,561,173
Non-current liabilities					
Provision for decommissioning	10		**11,646,619**		1,327,194
Total liabilities			**21,189,244**		8,888,367
Shareholders' deficiency					
Common shares	11(a)		**11,175,891**		10,243,391
Share purchase warrants	11(c)		**96,433**		311,126
Contributed surplus			**3,349,162**		3,120,034
Accumulated other comprehensive loss			**(14,013)**		(14,013)
Deficit			**(15,767,915)**		(15,492,956)
Total shareholders' deficiency			**(1,160,442)**		(1,832,418)
Total shareholders' deficiency and liabilities		$	**20,028,802**	$	7,055,949

Going concern (Note 2)
Contingency and subsequent event (Note 17)

Approved and authorised by the Board of Directors

Signed "Burkhard Franz", Director

Signed "Lorraine McVean", Director

	Note	Three months ended September 30 2018	Three months ended September 30 2017	Nine months ended September 30 2018	Nine months ended September 30 2017
		(Note 6)			
Revenue					
Petroleum and natural gas	12	**$ 1,289,934**	$ 344,932	**$ 2,320,222**	$ 1,388,993
Royalties		**(127,051)**	(21,700)	**(186,709)**	(133,020)
		1,162,883	323,232	**2,133,513**	1,255,973
Expenses					
Operating		**741,494**	239,528	**1,111,952**	877,312
Depreciation and depletion	7	**409,367**	124,625	**742,668**	442,217
Stock-based compensation	11(b)	**4,584**	11,654	**14,435**	34,072
General and administrative		**49,587**	123,960	**290,417**	459,583
		1,205,032	499,767	**2,159,472**	1,813,184
Operating loss		**(42,149)**	(176,535)	**(25,959)**	(557,211)
Finance expense	13	**(185,320)**	(84,517)	**(464,543)**	(360,005)
Loss on sale of investment		**-**	-	**-**	(3,898)
Gain on disposition of property and equipment	7	**215,543**	-	**215,543**	-
Loss for the period		**(11,926)**	(261,052)	**(274,959)**	(921,114)
Other comprehensive loss					
Net change in fair value of available for sale financial assets		**-**	-	**-**	(3,000)
Total comprehensive loss for the period		**$ (11,926)**	$ (261,052)	**$ (274,959)**	$ (924,114)
Loss per share					
Basic and diluted	15	**$ (0.00)**	$ (0.01)	**$ (0.01)**	$ (0.04)

	Common Shares				
	Number	***Amount $***	***Warrants $***	***Contributed surplus $***	***Accumula other comprehe loss $***

Balance, December 31, 2016	22,973,895	10,106,434	214,963	3,083,690	(1
Issue of share capital	3,398,416	233,120	-	-	
Warrants share-based payments	-	(49,925)	49,925	-	
Stock-based compensation	-	-	-	34,072	
Net change in available for sale investments	-	-	-	-	(3
Loss for the period	-	-	-	-	
Balance, September 30, 2017	26,372,311	10,289,629	264,888	3,117,762	(1
Balance, December 31, 2017	26,372,311	10,243,391	311,126	3,120,034	(1
Issue of share capital (Note 11(a))	19,820,000	991,000	-	-	
Share issue costs (Note 11(a))	-	(58,500)	-	-	
Stock-based compensation (Note 11(b))	-	-	-	14,435	
Expired warrants (Note 11(c))	-	-	(214,693)	214,693	
Loss for the period	-	-	-	-	
Balance, September 30, 2018	46,192,311	11,175,891	96,433	3,349,162	(1

		Three months ended September 30		*Nine months end September 30*	
	Note	***2018***	*2017*	***2018***	*2*
Cash provided by (used in) the following:					
Operating activities					
Loss for the period		**$ (11,926)**	$ (261,052)	**$ (274,959)**	$ (9
Adjustments for non-cash items:					
Stock-based compensation	11(c)	**4,584**	11,655	**14,435**	
Depreciation and depletion	7	**409,367**	124,625	**742,668**	4
Finance expense	13	**52,350**	5,064	**65,192**	
Gain on sale of property and equipment	7	**(215,543)**	-	**(215,543)**	
Loss on sale of investments		**-**	-	**-**	
		238,832	(119,708)	**331,793**	(4
Changes in non-cash working capital:					
Trade and other receivables		**(789,501)**	(17,792)	**(1,308,717)**	
Prepaid expenses		**177,278**	-	**18,974**	
Inventory		**(5,088)**	5,635	**(206,657)**	
Trade and other payables		**931,537**	(8,796)	**2,015,559**	1
Net cash flows provided by operating activities		**553,058**	(140,661)	**850,952**	(1
Investing activities					
Business combination	6	**(173,865)**	-	**(1,073,865)**	
Purchase of property and equipment	7	**(75,973)**	(168,578)	**(781,489)**	(2
Purchase of exploration and evaluation assets		**-**	(331)	**-**	

Proceeds on sale of investment		**-**	-	**-**	
Net cash flows used in investing activities		**(249,838)**	(168,909)	**(1,855,354)**	(1
Financing activities					
Issue of common shares, net of issue costs	11(a)	**-**	233,120	**932,500**	2
Repayment of credit facilities	9	**(150,000)**	-	**(210,000)**	
Advances of mezzanine financing	9	**-**	148,001	**300,000**	1
Funds held in trust for debt repayment	9	**(160,000)**	-	**(160,000)**	
Cash advance for shareholders' equity		**-**	(163,120)	**-**	
Net cash flows provided by financing activities		**(310,000)**	218,001	**862,500**	3
Change in cash and cash equivalents		**(6,780)**	(91,569)	**(141,902)**	
Cash and cash equivalents, beginning of period		**(9,504)**	112,983	**125,618**	
Cash and cash equivalents, end of period		**$ (16,284)**	$ 21,414	**$ (16,284)**	$
Cash interest paid		**$ 113,548**	$ 112,648	**$ 399,930**	$ 2
Cash taxes paid		**-**	-	**-**	

- ## 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..

These financial statements were approved for issuance by the Board of Directors on November 29, 2018.

- ## 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 September 30, 2018, the Corporation has a working capital deficiency of $7,481,828 (December 31, 2017 – $7,204,444), and an accumulated deficit of $15,767,915 (December 31, 2017 – $15,492,956). 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 September 30, 2018, the Corporation was in breach of all but one of its covenants (Note 9). Management continually monitors the Corporation's financing requirements and, in June 2018, acquired a working interest in producing properties (Note 6) 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 which 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, 2018.

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 September 30, 2018, 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 9) 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, the maturity date of the Amended Credit Facilties:

- 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 of the date of these unaudited condensed interim financial statements, the Corporation is in default and is negotiating the extension of the lending arrangement and the Amended Credit Facilities.

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.

- **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, 2017.

- **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 and new model to be used for hedge accounting for risk management contracts. The Corporation does not currently have any risk management contracts. The adoption of IFRS 9 did not have a material impact on the Corporation’s 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 a 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.

- **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 September 30, 2018 is in respect of $1,506,530 (December 31, 2017 – $197,813) of trade and other receivables.

  The Corporation’s trade and other receivables consist of:

		September 30 2018		*December 31 2017*
Trade receivables	$	**1,454,436**	$	174,941
GST receivable and other		**52,094**		22,842
	$	**1,506,530**	$	197,813

Four main customers that represent 97% of petroleum and natural gas revenue reported for the nine months ended September 30, 2018 comprise $1,397,848 of trade receivables at September 30, 2018 (December 31, 2017 – two main customers $120,982 of trade receivables). See Note 12.

The Corporation makes allowance for credit losses based on management’s assessment of collectability. The allowance for credit losses at September 30, 2018 was $134,830 (December 31, 2017 - $134,830).

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

		September 30 2018		*December 31 2017*
Current	$	**1,364,184**	$	43,602
31 to 60 days		**11,638**		2,602

61 to 90 days	**30,249**	4,327
Over 90 days	**48,365**	124,410
	$ 1,454,436	$ 174,941

- **Business combination**

On June 11, 2018, the Corporation completed the acquisition of a 100% working interest in producing properties (the "Assets") 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 participant who was responsible for 80% of the purchase price. The Corporation assigned an 80% working interest and 80% of its rights and obligations under the purchase and sale agreement to the participant. The Corporationis the operator of the Assets for a minimum period of 18 months from the date of closing and holds a 20% working interests in the Assets. The Corporation has an option to acquire an additional 10% working interest in the Assets for $1,250,000 until December 11, 2019.

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

Preliminary fair value of net assets acquired:		
Petroleum and natural gas assets	$	3,358,807
Prepaid lease rentals		173,286
Goodwill		2,731,337
Decommissioning liability		(5,189,565)
	$	1,073,865
Consideration:		
Cash	$	1,073,865

The preliminary estimates of fair value were made by management at the time of preparation of these condensed interim financial statements based on available information and may be adjusted as the amounts subject to estimates are finalized.

Goodwill is attributed to the Corporation's operatorship of the Assets obtained through the acquisition as well as the increase in daily production and cash flow to fund the Corporation's ongoing operations and assist in the repayment of debt. Subsequent measurement of goodwill is at cost less any accumulated impairments. Goodwill is assessed for impairment at least annually. If the carrying amount of the related cash-generating unit ("CGU") exceeds the recoverable amount of the CGU, including goodwill, the associated goodwill is written down with an impairment recognized in net earnings. Goodwill impairments are not reversed. Goodwill is not tax deductible.

The estimated value of the Assets acquired was determined using both internal estimates and an independent reserve evaluation of total proved and probable petroleum and natural gas reserves discounted at 10%. The fair value of the decommissioning liability assumed was determined using estimates of the timing and future costs associated with plugging, abandonment and site remediation costs of the Assets, discounted at a credit-adjusted rate (12%) in accordance with *IFRS 3 Business Combinations* and *IFRS 13 Fair Value Measurement*.

On June 12, 2018, the day immediately following the acquisition date, the decommissioning liability assumed 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 $5,417,879 increase in the decommissioning liability associated with the Assets and the recognition of a $5,417,879 measurement adjustment as a change in estimate of the decommissioning liability.

During the nine months ended September 30, 2018, the Corporation incurred $27,760 of costs related to the acquisition which are included in general and administrative expenses in the statement of income (loss) and comprehensive loss.

Since June 11, 2018, the acquisition contributed $945,322 of petroleum and natural gas revenue and $212,120 of operating income (petroleum and natural gas revenue less royalties and operating expenses). Had the acquisition occurred on January 1, 2018, the Corporation estimates that petroleum and natural gas revenue would have increased by approximately $1,362,600 and operating income would have increased by approximately $305,800. The pro forma information is not necessarily representative of future revenue and operations.

The Corporation originally reported a $990,918 gain on business combination and income of $737,885 in the statement of income (loss) and comprehensive income (loss) for the six months ended June 30, 2018. Had the business combination been accounted for as shown the preceding table, no gain would have been recognized and the Corporation would have reported a loss of $263,033 for the six months ended June 30, 2018 and the results for the three months ended September 30, 2018 have been reported on this basis. There is no impact on cash flows in any of the current or previously reported periods.

- **Property and equipment**

	Petroleum and natural gas interests	*Administrative assets*	*Total*
Cost			
Balance, December 31, 2017	$ 13,310,524	$ 16,061	$ 13,326,585
Business combination (Note 6)	3,358,807	-	3,358,807
Additions	781,489	-	781,489
Property disposition	(1,579,592)	-	(1,579,592)
Change in decommissioning liability	5,160,708	-	5,160,708
Balance, September 30, 2018	**$ 21,031,936**	**$ 16,061**	**$ 21,047,997**
Accumulated depletion, depreciation and impairment			
Balance, December 31, 2017	$ 6,611,304	$ 16,061	$ 6,627,365
Depletion and depreciation	742,668	-	742,668
Property disposition	(1,558,704)	-	(1,558,704)
Balance, September 30, 2018	**$ 5,795,268**	**$ 16,061**	**$ 5,811,329**
Net carrying amount			
As at December 31, 2017	$ 6,699,220	-	$ 6,699,220
As at September 30, 2018	**$ 15,236,668**	**-**	**$ 15,236,668**

Future development costs:

The September 30, 2018, depletion expense calculation included $7,553,890 (December 31, 2017 - $3,480,800) for estimated future development costs associated with the Corporation's petroleum and natural gas assets.

Property disposition:

On August 13, 2018, the Corporation completed a sale of certain wells in the Silverdale area for proceeds of $125,000. The proceeds from the sale were paid directly to the Corporation's primary lender. A summary of the property disposition is provided below:

Carrying amount of net assets sold:		
Petroleum and natural gas assets	$	20,888
Decommissioning liability		(111,431)
Gain on property disposition		215,543
	$	125,000
Consideration:		
Paid directly to the Corporation's primary lender	$	125,000

- **Trade and other payables**

		September 30 2018		December 31 2017
Trade payables	$	**3,174,077**	$	1,599,643
Accruals and other accounts payable		**972,674**		661,166
GST/HST Payable		**144,814**		15,197
	$	**4,291,565**	$	2,276,006

Trade payables are non-interest bearing.

- **Credit facilities**

		Debt		Derivative liabilty		Total
Balance, December 31, 2017	$	5,269,776	$	15,391	$	5,285,167
Amounts advanced under Credit Facility B		300,000		–		300,000
Principal repayment		(335,000)		–		(335,000)
Expiry of warrants (Note 11(c))		–		(15,391)		(15,391)
Balance, September 30, 2018	$	**5,234,776**	**$**	**–**	$	**5,234,776**

As at September 30, 2018, $4,454,923 (December 31, 2017 - $4,662,922) was outstanding on Credit Facility A and $560,202 (December 31, 2017 – $387,180) was outstanding on Credit Facility B.

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. Credit Facility A has a maturity date of July 31, 2018 (Note 17) and has an interest rate of 10% per annum, increasing to 19% per annum in the event of default.

Principal repayments on Credit Facility B are $30,000 per month commencing November 30, 2017, increasing to $50,000 commencing January 31, 2018. Credit Facility B has a maturity date of July 31, 2018 (Note 17) and has an interest rate of 12% per annum, increasing to 19% per annum in the event of default.

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.

The 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.

On September 8, 2017, the Corporation entered into a Forbearance Agreement and a Quitclaim with the Lender (Note 2).

Participation fee

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

Covenants

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

- A 1.0:1.0 current ratio;
- A Secured Debt to Trailing Cash Flow at or below 3.0 : 1.0:

- A corporate Licensee Liability Rating ("LLR") of 1.5 or greater; and,
- Maintain monthly sales production of 140 boe/day.

At September 30, 2018, the Corporation was in breach of all the covenants except for maintaining an LLR of 1.5 or greater. As of the date of these unaudited condensed interim financial statements, the Corporation and its lender are negotiating the terms of the lending arrangement and the Amended Credit Facilities, including the participation fee, covenants and related default interest,if any.

- **Provision for decommissioning**

The Corporation estimates the total inflation-adjusted undiscounted amount of cash flows required to settle its decommissioning liabilities, before salvage proceeds, at September 30, 2018 to be $13,360,355 (December 31, 2017 - $1,559,175) which will be incurred at various times over the next two to twenty years. The decommissioning liability was calculated using risk free rates ranging from 2.18% to 2.43% and an inflation factor of 2.0%.

Balance, December 31, 2017	$	1,327,194
Business combination (Note 6)		5,189,565
Property disposition (Note 7)		(111,431)
Changes in estimates and assumptions		5,160,708
Accretion		80,583
Balance, September 30, 2018	$	**11,646,619**

- **Share capital**

- Common shares

	Number of common shares		Amount
Balance, December 31, 2017	26,372,311	$	10,243,391
Private placement	19,820,000		991,000
Share issue costs	–		(58,500)
Balance, September 30, 2018	46,192,311	$	11,175,891

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 aggregate gross proceeds of $985,000. A director of the Corporation subscribed for 2,000,000 of the common shares.

The Corporation incurred $58,500 of share issue costs comprised of a $52,500 finders fee paid in cash and 120,000 common shares at a deemed price of $0.05.

- Stock options

As at December 31, 2017 and September 30, 2018, the Corporation had 1,350,000 stock options outstanding. Information about stock options outstanding as at September 30, 2018 is summarized below:

	Options outstanding			Options exercisable	
Range of exercise price ($/share)	*Outstanding*	*Weighted average remaining contractual life*	*Weighted average exercise price ($/share)*	*Number exercisable*	*Weighted average exercise price ($/share)*
0.07 - 0.10	1,350,000	1.8 years	0.10	966,667	0.10

During the nine months ended September 30, 2018, stock-based compensation of $4,584 (September 30, 2017 - $34,072) was recorded relating to stock options vested during the current period.

- Warrants

	Number of warrants	Amount

Balance, December 31, 2017	9,220,618	$	311,126
Expired	(7,698,333)		(214,693)
Balance, September 30, 2018	1,522,285	$	96,433

Warrants outstanding at September 30, 2018 are exercisable at $0.14 per share until May 22, 2019.

- **Revenue**

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

		Three months ended September 30				Nine months ended September 30		
		2018		2017		2018		2017
Oil	$	1,288,413	$	339,489	$	2,310,04	$	1,364,044
Natural gas		1,521		5,443		10,18		24,949
	$	1,289,934	$	344,932	$	2,320,22	$	1,388,993

The Corporation sells its oil and natural gas production pursuant to variable-price contracts which generally have a term of one year or less. The transaction price for variable priced contracts is based on the commodity index price and may include adjustments for quality, location or other factors depending on the contract terms. The Corporation delivers variable or fixed volumes of crude oil and variable volumes of natural gas to the respective counterparty throughout the contract period. Revenue is recognized when production is delivered to the contract counterparty. The transaction price that is used in determining the amount of 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. Production 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 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 nine months ended September 30, 2018, all of the Corporation's revenue was generated in Saskatchewan and Alberta and the production was sold primarily to four major customers. The Corporation's oil revenue results 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 revenue is based on the AECO benchmark price. Revenues are typically collected on the 25th day of the month following production.

The Corporation's four major customers represented 97% of petroleum and natural gas revenue for the nine months ended September 30, 2018 (nine months ended September 30, 2017 – two major customers represented 85%).

- **Finance expense**

		Three months ended September 30				Nine months ended September 30		
		2018		2017		2018		2017
Interest expense	$	132,970	$	79,453	$	399,351	$	345,971
Derivative liability for expired warrants (Note 9)		(15,391)		-		(15,391)		-
Accretion of provision for decommissioning (Note 10)		67,741		5,064		80,583		14,034

	$	185,320	$	84,517	$	464,543	$	360,005

- **Key management remuneration**

Key management personnel include executive officers and nonexecutive 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. Nonexecutive directors also participate in the Corporation's stock option program. Key management personnel compensation is comprised of the following:

	Three months ended September 30				Nine months ended September 30			
		2018		2017		2018		2017
Salaries and short-term benefits	$	78,000	$	9,000	$	117,000	$	27,000
Stock-based compensation		4,584		11,655		14,435		34,073
	$	82,584	$	20,655	$	131,435	$	61,073

During the nine months ended September 30, 2018, 75,000 DSU's were granted (September 30, 2017 – 336,818), with a fair value of $3,750 (September 30, 2017 - $17,500) which is included in general and administration expense. As at September 30, 2018, 1,145,420 DSU's (December 31, 2017 – 933,241), were outstanding and the fair value of the DSU's of $73,750 (December 31, 2017 - $70,000) is included in trade and other payables.

	Number of DSU's
Balance at December 31, 2017	933,241
Granted	212,179
Outstanding at September 30, 2018	1,145,420

- **Per share amounts**

	Three months ended September 30				Nine months ended September 30			
		2018		2017		2018		2017
Income (loss) for the period	$	(11,926)	$	(261,052)	$	(274,959	$	(921,114)
Opening number of shares		26,372,311		22,973,895		26,372,311		22,973,895
Effect of shares issued		19,820,000		2,401,055		9,075,092		605,197
Basic and diluted weighted average number of shares		46,192,311		25,374,950		35,447,403		23,579,092
Basis and diluted income (loss) per share	$	(0.00)	$	(0.01)	$	((	$	(0.04)

Diluted per share information is calculated by adjusting the weighted average number of common shares outstanding for the effects of potentially dilutive options. Loss per share on a diluted weighted average basis is the same as that presented for basic as all factors are anti-dilutive.

- **Related party transactions**

During the nine months ended September 30, 2018, $50,000 (September 30, 2017 - $40,000) 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 September 30, 2018 is $66,000 (September 30, 2017 - $63,014) owing to this law firm.

During the nine months ended September 30, 2018, management, consulting and engineering fees of

$105,182 (September 30, 2017 - $78,000), included in general and administrative expenses, were charged by two officers of the Corporation and by a corporation controlled by an officer. Included in trade and other payables at September 30, 2018 is $32,122 (September 30, 2017 - $24,000) owing to these officers.

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

- **Contingency and subsequent event**

The Corporation has signed a consent judgment with respect to 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. The Corporation has now paid $150,000 in full settlement of this debt of the $501,000 held in trade payables. On November 26, 2018, the Corporation received notice that the former operator's writ of enforcement and security agreement in respect of the these properties were discharged