

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



Financial Statements

December 31, 2019 and 2018

(in Canadian dollars)

Independent Auditor's Report

To the Shareholders of Prospera Energy Inc. (formerly Georox Resources Inc.):

Opinion

We have audited the financial statements of Prospera Energy Inc. (formerly Georox Resources Inc.) (the "Corporation"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of loss and comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Corporation has a working capital deficiency of \$7,248,749, and an accumulated deficit of \$22,508,308. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Laluk.

Calgary, Alberta

May 19, 2020

MNP LLP

Chartered Professional Accountants

PROSPERA ENERGY INC.

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

	Note	2019	2018
ASSETS			
Current assets			
Cash		\$ 469,431	\$ 177,624
Trade and other receivables	6	2,103,856	1,086,382
Prepaid expenses and deposits		417,261	333,424
Inventory		261,584	89,843
Total current assets		3,252,132	1,687,273
Non-current assets			
Property and equipment	8	12,363,483	9,665,253
Total assets		\$ 15,615,615	\$ 11,352,526
SHAREHOLDERS' DEFICIENCY AND LIABILITIES			
Current liabilities			
Trade and other payables	9	\$ 8,088,457	\$ 4,420,292
Credit facilities	10	2,412,424	4,915,125
Total current liabilities		10,500,881	9,335,417
Non-current liabilities			
Provision for decommissioning	11	12,139,284	9,398,844
Total liabilities		22,640,165	18,734,261
Shareholders' deficiency			
Share capital	13(a)	11,649,956	11,539,391
Share purchase warrants	13(b)	297,834	96,163
Contributed surplus		3,549,981	3,411,159
Accumulated other comprehensive income		(14,013)	(14,013)
Deficit		(22,508,308)	(22,414,435)
Total shareholders' deficiency		(7,024,550)	(7,381,735)
Total liabilities and shareholders' deficiency		\$ 15,615,615	\$ 11,352,526

Going Concern (Note 2)

Subsequent Events (Note 19)

Approved and authorised by the Board of Directors

Signed "Sarshar Ahmad", Director

Signed "Savi Franz", 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 years ended December 31, 2019 and 2018

	Note	2019	2018
Revenues			
Petroleum and natural gas sales	18	\$ 7,940,850	\$ 3,094,542
Royalties		(700,402)	(244,873)
		7,240,448	2,849,669
Expenses			
Operating		5,768,353	2,117,894
General and administrative	16(a)	582,870	460,826
Depletion and depreciation	8	1,646,541	1,903,089
Impairment	8	-	5,904,895
Share-based payments	13(c)	42,659	76,162
		8,040,423	10,462,866
Operating loss		(799,975)	(7,613,197)
Finance recovery (expense)		(625,953)	121,308
Gain on settlement of trade payables		58,632	-
Gain on disposition of property and equipment	8	373,423	227,157
Gain on debt forgiveness	10	900,000	343,253
Loss and comprehensive loss		\$ (93,873)	\$ (6,921,479)
Loss per share	14	\$ (0.00)	\$ (0.18)

The accompanying notes are an integral part of these financial statements

PROSPERA ENERGY INC.

(formerly Georox Resource Inc.)

Statements of Changes in Shareholders' Deficiency

For the years ended December 31, 2019 and 2018

	Note	2019	2018
Share capital			
	13(a)		
Balance, January 1		\$ 11,539,391	\$ 10,243,391
Private placement of common shares		779,500	991,000
Private placement proceeds received in advance	23(a)	(366,000)	366,000
Issue of share purchase warrants		(297,834)	-
Share issue costs		(5,101)	(61,000)
Balance, December 31		11,649,956	11,539,391
Share purchase warrants			
	14(b)		
Balance, January 1		96,163	311,126
Warrants issued		297,834	-
Expiry of share purchase warrants		(96,163)	(214,963)
Balance, December 31		297,834	96,163
Contributed surplus			
Balance, January 1		3,411,159	3,120,034
Share-based payments		42,659	76,162
Expiry of share purchase warrants		96,163	214,963
Balance, December 31		3,549,981	3,411,159
Accumulated other comprehensive income			
Balance, January 1		(14,013)	(14,013)
Net change in fair value of available for sale financial assets		-	-
Balance, December 31		(14,013)	(14,013)
Deficit			
Balance, January 1		(22,414,435)	(15,492,956)
Income (loss) for the year		(93,873)	(6,921,479)
Balance, December 31		(22,508,308)	(22,414,435)
Total shareholders' deficiency		\$ (7,024,550)	\$ (7,381,735)

The accompanying notes are an integral part of these financial statements

PROSPERA ENERGY INC.

(formerly Georox Resource Inc.)

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

	Note	2019	2018
Cash flows (used in) provided by operating activities			
Income (loss) for the year		\$ (93,873)	\$ (6,921,479)
Add back (deduct) items not affecting cash:			
Depletion, depreciation and impairment	8	1,646,541	5,249,137
Goodwill impairment	7	-	2,558,847
Share-based payments	13(c)	42,659	76,162
Finance expense (recovery)		625,953	(121,308)
Gain on settlement of trade payables		(58,631)	-
Gain on debt forgiveness	10	(900,000)	(343,253)
Gain on sale of assets		(340,423)	-
Change in non-cash working capital:			
Trade and other receivables		(1,015,882)	(888,569)
Prepaid and other current assets		(83,837)	(156,723)
Inventory		(171,740)	(59,959)
Trade and other payables		1,645,940	1,944,158
Net cash flows provided by operating activities		1,296,707	1,453,109
Cash flows provided by (used in) financing activities			
Share issuance proceeds, net of issue costs	14(a)	772,807	930,000
Share issuance proceeds received in advance	23(a)	-	366,000
Advances of credit facilities	11	-	300,000
Repayment of credit facilities	11	(1,317,080)	(310,000)
Interest expense	17	(405,180)	(528,654)
Change in non-cash working capital		-	45,766
Net cash flows (used in) provided by financing activities		(949,453)	803,112
Cash flows provided (used in) by investing activities			
Business combinations	7	(50,000)	(2,011,365)
Expenditures on petroleum and natural gas assets	8	(38,447)	(844,614)
Proceeds from disposition of property, plant and equipment		33,000	-
Change in non-cash working capital		-	651,764
Net cash flows used in investing activities		(55,447)	(2,204,215)
Change in cash		291,807	52,006
Cash, beginning of year		177,624	125,618
Cash, end of year		\$ 469,431	\$ 177,624

The accompanying notes are an integral part of these financial statements

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

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 under the ticker “PEI” 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 December 31, 2019, the Corporation has a working capital deficiency of \$7,248,749 (2018 – \$7,648,144), and an accumulated deficit of \$22,508,308 (2018 – \$22,414,435). There is a material risk that the Corporation will be unable to meet its financing obligations including payments of outstanding interest and principal balances on its credit facilities and as at December 31, 2019, the Corporation was in compliance with all of its covenants (Note 10). 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 December 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 December 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.

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 10).

On September 8, 2017, Corporation entered into a Quitclaim (the “Quitclaim”) with its lender (Note 10) 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.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

2. Going Concern (continued)

Subsequent to year-end, the Corporation had the renewal of the loan extended to November 30, 2020 (Note 19).

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 Preparation

(a) Statement of compliance

The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were approved and authorized for issuance by the Corporation's Board of Directors on May 19, 2020.

(b) Basis of measurement

The financial statements have been prepared in accordance with IFRS on a historical cost basis except as otherwise noted.

(c) Presentation and functional currency

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

(d) Use of judgments and estimates

The preparation of 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.

The accounting policies subject to such judgments and the key sources of estimation uncertainty that the Corporation believes could have the most significant impact on the reported results and financial position are as follows:

Critical accounting judgments

- Cash-generating units

The Corporation's assets are aggregated into cash-generating units ("CGUs") based on an assessment of the unit's ability to generate independent cash in-flows. The determination of the Corporation's CGUs was based on management's judgment in regard to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations. The Corporation has three petroleum and natural gas CGUs: Pouce Coupe and Red Earth in the province of Alberta and Cuthbert, Hearts Hill, Luseland together in the province of Saskatchewan.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

3. Basis of Preparation (continued)

- Business combinations

Management uses judgment to determine whether a transaction constitutes a business combination or asset acquisition is based on the criteria in IFRS 3 Business Combinations.

- Impairment

Judgment is required to assess when impairment indicators are evident and impairment testing is required.

- Going concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital requirements involves judgement. The board of directors monitors future cash requirements to assess the Corporation's ability to meet these future funding requirements. Further information regarding going concern is outlined in Note 2.

- Current and deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation operates are subject to change. As such, current and deferred taxes are subject to measurement uncertainty. Management uses judgment to assess deferred tax assets at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

- Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. Although the Corporation believes it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

Key sources of estimation uncertainty

- Valuation of accounts receivable

Expected credit losses are reviewed by the Corporation on a monthly basis. The Corporation calculates the expected credit losses on accounts receivable using a provision matrix which is based on the Corporation's historical credit loss experience for accounts receivable to estimate the lifetime expected credit losses. Management makes these assessments after taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Corporation's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfil its payment obligations can change suddenly and without notice.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

3. Basis of Preparation (continued)

- Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the statement of loss and comprehensive loss and is also a key determinant in assessing whether the carrying value of any of the Corporation's petroleum and natural gas assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows.

The Corporation's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

- Business combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of petroleum and natural gas assets based upon the estimation of recoverable quantities of proved and probable reserves acquired, forecast benchmark commodity prices and discount rates. These estimates impact the potential for recognizing goodwill or a bargain purchase gain, future depletion and impairment.

- Carrying value of non-financial assets

If any indication exists that an asset or CGU may be impaired, the Corporation estimates the recoverable amount. The recoverable amounts of individual assets and cash-generating units have been determined based on the higher of value-in-use and fair value less costs to dispose.

These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. A material adjustment to the carrying value of the Corporation's non-financial assets may be required as a result of changes to these estimates and assumptions.

- Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

- Provision for decommissioning

Amounts recorded for the Corporation's provision for decommissioning require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third-party information and calculations and are subject to change over time and may have a material impact on the financial statements.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

3. Basis of Preparation (continued)

- **Deferred taxes**

Deferred taxes are based on estimates as to the timing of the reversal of temporary and taxable differences, substantively enacted tax rates and the likelihood of assets being realized.

- **Stock options and share purchase warrants**

Stock options and share purchase warrants are valued using the Black-Scholes pricing model. Estimates and assumptions for inputs to the model, including the expected volatility of the Corporation's shares and the expected life of the options and share purchase warrants, are subject to significant uncertainties and judgment. Expected volatility is estimated using a historical trading period for the Corporation's shares that matches the life of the related stock options or share purchase warrants.

4. Summary of Significant Accounting Policies

(a) Joint arrangements

The Corporation's oil and natural gas activities involve joint operations. The financial statements include the Corporation's share of the jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(b) Cash

Cash consist of cash deposits held in Canadian banks.

(c) Inventory

Inventory is stated at the lower of cost and net realizable value. The cost of producing oil and natural gas is accounted for on a weighted average basis. These costs include all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of oil and natural gas is the producing cost, including royalties and the appropriate proportion of depletion and depreciation and overheads. Net realizable value of oil and natural gas is based on estimated selling price in the ordinary course of business less any expected selling costs.

(d) Property and equipment

Petroleum and natural gas assets

All costs directly associated with the development of petroleum and natural gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling and completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets.

Costs incurred subsequent to the determination of technical feasibility and commercial viability, costs of replacing parts of petroleum and natural gas assets and workovers of petroleum and natural gas assets are recognized as assets only if they increase the economic benefits of the assets to which they relate. All other expenditures are recognized in the statement of loss and comprehensive loss when incurred. The carrying amounts of previous inspections or any replaced or sold components are derecognized. The costs of day-to-day servicing of petroleum and natural gas assets are recognized in the statement of loss and comprehensive loss as incurred.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

4. Summary of Significant Accounting Policies (continued)

Petroleum and natural gas assets are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes to estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Processing facilities and well equipment are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells with little to no residual value.

Administrative assets, consisting of office furniture and equipment are depreciated on a declining balance basis over their estimated useful lives at rates ranging from 20% to 30% per annum.

For divestitures of petroleum and natural gas assets, a gain or loss is recognized in the statement of loss and comprehensive loss. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured in which case the cost of the acquired asset is measured at the carrying value of asset given up. Where the exchange is measured at fair value, a gain or loss is recognized in the statement of loss and comprehensive loss.

Impairment

At the end of each reporting period, the Corporation reviews petroleum and natural gas assets for circumstances that indicate the assets may be impaired. Assets are grouped together into CGUs for the purpose of impairment testing. If any such indication of impairment exists, the Corporation makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to dispose and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less cost to dispose is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to dispose of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is first allocated to reduce the carrying amount of goodwill, should it exist, then allocated on a pro rata basis to the assets within the CGU. Impairment losses are recognized in the statement of loss and comprehensive loss.

At the end of each subsequent reporting period these impairments are assessed for indicators of reversal. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized in the statement of loss and comprehensive loss.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

4. Summary of Significant Accounting Policies (continued)

(e) Goodwill

The Corporation records goodwill relating to a business combination when the purchase price exceeds the fair value of the net identifiable assets and liabilities of the acquired business. Goodwill is reported at cost less any impairment and is not amortized. Goodwill is evaluated when facts and circumstances indicate that it is impaired, or at least on an annual basis.

To test for impairment, goodwill is allocated to the related CGU expected to benefit from the acquisition. Goodwill is tested by comparing the carrying amount of the CGU to the recoverable amount. Fair value less costs to dispose is derived by estimating the discounted after-tax future net cash flows as described in the property and equipment impairment test, plus the fair market value of undeveloped land, seismic and inventory. Value in use is assessed using the present value of the expected future cash flows. Any excess of the carrying amount over the recoverable amount is recorded as impairment. Goodwill impairments are not reversed.

(f) Provision for decommissioning

The Corporation recognizes a provision for decommissioning in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning liability is recorded with a corresponding increase in the carrying amount of the related asset.

The provision for decommissioning is measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion expense whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of decommissioning liabilities are charged against the provision to the extent a liability was established.

(g) Taxes

Taxes on earnings for the periods presented are comprised of current and deferred tax. Taxes are recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the statement of financial position method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. Deferred tax is also not recorded on differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

4. Summary of Significant Accounting Policies (continued)

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

(h) Financial instruments

As of January 1, 2018, the Corporation classifies its financial instruments in the following measurement categories:

- Subsequently measured at fair value (either through profit or loss ("FVTPL") or other comprehensive income ("FVOCI")); or
- Subsequently measured at amortized cost.

The classification depends on the Corporation's business model for managing the financial instruments and the contractual terms of the cash flows. There was no change in the categorization of the Corporation's financial instruments upon the adoption of IFRS 9 Financial Instruments.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, trade and other receivables, trade and other payables and credit facilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at FVTPL, any directly attributable transaction costs. Transaction costs of financial assets measured at FVTPL are expensed in the statement of loss and comprehensive loss. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in the statement of loss and comprehensive loss. A financial asset is classified at FVTPL unless it is measured at amortized cost or classified as FVOCI. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in FVOCI with no reclassification of realized gains or losses in the statement of loss and comprehensive loss upon derecognition of the equity instruments.

- Financial liabilities at FVTPL

The Corporation classifies the contingent liability as FVTPL. A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

4. Summary of Significant Accounting Policies (continued)

Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in the statement of loss and comprehensive loss. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the statement of loss and comprehensive loss. Any gain or loss on derecognition is also recognized in the statement of loss and comprehensive loss.

A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in the statement of loss and comprehensive loss based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in the statement of loss and comprehensive loss.

- Financial assets at FVOCI

Financial assets at FVOCI are measured at fair value, and changes therein are recognized in other comprehensive income. A financial asset is classified as FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial instruments at amortized cost

The Corporation classifies cash, trade and other receivables, trade and other payables and credit facilities as financial instruments at amortized cost. These financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Any gain or loss arising on de-recognition is recognized directly in the statement of loss and comprehensive loss. Impairment losses are presented as separate line item in the statement of loss and comprehensive loss.

Derivative financial instruments

The Corporation has not entered into any financial derivative contracts.

(i) Impairment of financial instruments

As of January 1, 2018, the Corporation assesses, on a forward-looking basis, the expected credit losses associated with financial instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Corporation applied the simplified approach permitted by IFRS 9 Financial Instruments ("IFRS 9").

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

4. Summary of Significant Accounting Policies (continued)

The Corporation adopted IFRS 9 on January 1, 2018 using the modified retrospective approach but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Corporation's previous accounting policy:

Trade and other receivables are assessed for impairment individually, if significant, and collectively if the assets share similar credit risk characteristics. If an impairment is required, the carrying amount of trade and other receivables is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Net adjustments to the allowance account are recorded in the statement loss and comprehensive loss.

(j) Share capital

Common and preferred shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

(k) Share purchase warrants

The Corporation may issue share purchase warrants as part of a unit issuance comprised of a share and warrant or as a share issue cost. Share purchase warrants are classified as equity instruments. Consideration received on the sale of a share and share purchase warrant classified as equity is allocated, within equity, to the respective equity accounts on a reasonable basis. The fair value of share purchase warrants is measured at the date of issuance using the Black-Scholes pricing model taking into account the terms and conditions upon which the share purchase warrants were issued. Share purchase warrants are classified as equity instruments are not subsequently re-measured for changes in fair value.

(l) Share-based payments

The Corporation follows the fair value method of accounting for stock options. The fair value of each stock option is calculated on the grant date using the Black-Scholes pricing model and is charged to income over the vesting period of the stock option, with a corresponding increase recorded in contributed surplus. Forfeitures are accounted for at grant date and adjusted based on actual vesting. Upon exercise of stock options, the consideration received plus the amount previously recorded in contributed surplus is recorded as an increase to share capital.

(m) Deferred share units

The Corporation has a deferred share unit ("DSU") plan, whereby DSUs are issued to the Corporation's Board of Directors. Each DSU is a notional unit equal in value to one common share, which entitles the holder to a cash payment upon redemption. DSUs can only be converted to cash upon the holder ceasing to be a director of the Corporation. The expense associated with the DSU plan is determined based on the market price of the Corporation's common shares on the grant date. The expense is recognized in the statement of loss and comprehensive loss in the period in which the units are granted with a corresponding liability recorded in trade and other payables. At period end dates, the DSU liability is adjusted based on the market price of the Corporation's common shares on the period end date.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

4. Summary of Significant Accounting Policies (continued)

(n) Per share amounts

The Corporation presents basic and diluted per share data for its common shares. Basic per share amounts are calculated by dividing the profit (loss) attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting earnings attributable to common shareholders and the weighted average number of common shares outstanding, adjusted, for the effects of all dilutive potential common shares.

(o) Revenue recognition

The Corporation recognizes revenue from the sale of petroleum and natural gas when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon and the Corporation has the present right to payment. Sales of oil and natural gas are based on variable pricing based on benchmark commodity prices and other variable factors including quality, location and other factors.

(p) Changes in accounting standards

Adoption of IFRS 16 Leases

On January 1, 2019, the Corporation adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. IFRS 16 results in almost all leases being recognized in the statement of financial position, as the distinction between operating and finance leases is removed. Under IFRS 16, an asset (the right-to-use the leased item) and a financial liability are recognized. The adoption of IFRS 16 did not have any impact on the Corporation's financial statements as the Corporation used the practical expedient of accounting for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases permitted by the standard and is not a party to any other lease agreements.

5. Determination of Fair Value

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Financial instruments

The fair values of cash, trade and other receivables, trade and other payables and credit facilities approximated their carrying amount at December 31, 2019 and 2018 due to their short term to maturity.

The Corporation determines the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

5. Determination of Fair Value (continued)

Level 1– Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward rates for interest rate, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data. The Corporation does not hold any Level 3 financial instruments.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

(b) Share purchase warrants and stock options

The Corporation uses the Black-Scholes pricing model to estimate the fair value of share purchase warrants and stock options issued, modified or granted. The Black-Scholes pricing model was based on the following assumptions:

	<u>2019</u>	<u>2018</u>
	Stock Options (Note 14(c))	Stock Options (Note 14(c))
Expected volatility	177%	140%
Risk-free rate	1.67%	2.21%
Expected life	2 years	2 years
Expected dividend yield	0%	0%
Forfeiture rate	0%	0%

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 December 31, 2019 is in respect of \$2,103,856 (2018 - \$1,086,382) of trade and other receivables.

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

	<u>2019</u>	<u>2018</u>
Trade receivables	\$ 2,103,856	\$ 1,086,382
Goods and Services Tax receivable and other	–	–
	<u>\$ 2,103,856</u>	<u>\$ 1,086,382</u>

Three main customers that represent 89% of petroleum and natural gas sales reported for the year ended December 31, 2019 comprise \$484,778 of trade receivables at December 31, 2019 (2018 – four main customers; 92% of sales; \$337,135 of trade receivables). See Note 17.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

6. Trade and Other Receivables (continued)

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

	2019	2018
0 to 60 days	\$ 215,195	\$ 817,632
61 to 90 days	27,423	97,761
Over 90 days	1,861,238	170,989
	<u>\$ 2,103,856</u>	<u>\$ 1,086,382</u>

The majority of receivables over 90 days are held by working interest owners.

7. Business Combinations

(a) 15% Working Interest (2019)

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

Fair value of net assets acquired:

Petroleum and natural gas assets	\$ 1,739,433
Provision for decommissioning	1,189,433
<u>Total net assets acquired</u>	<u>\$ 550,000</u>
Consideration:	
Cash	\$ 50,000
Forgiveness of participating interest holder's charges in arrears	500,000
<u>Total purchase price</u>	<u>\$ 550,000</u>

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

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

On May 22, 2019, the day immediately following the acquisition date, the provision for decommissioning was re-measured using a long-term risk-free rate (2 percent) based on the expected timing of cash flows, in accordance with IAS 37 Provisions, Contingent Liabilities, and Contingent Assets. The result was a \$1,093,42 increase in the provision for decommissioning associated with the acquired petroleum and natural gas assets and the recognition of a \$1,464,085 measurement adjustment as a change in estimate of the provision for decommissioning (refer to note 11).

Since May 21, 2019, the acquisition contributed \$851,350 of petroleum and natural gas sales and \$143,336 of operating income. Had the acquisition occurred on January 1, 2019, the Corporation estimates that total reported petroleum and natural gas sales would have increased by approximately \$480,088 and operating income would have increased by approximately \$171,624. The pro forma information is not necessarily representative of future revenue and operations.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

7. Business Combinations (continued)

(b) 20% Working Interest (2018)

On June 11, 2018, the Corporation completed the acquisition of a 20% working interest in producing properties located in Southwest Saskatchewan 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 is supported by an arm's-length private Corporation participant who was responsible for 80% of the purchase price. The Corporation assigned 80% of its rights and obligations under the Agreement to the Participant and in exchange is the operator of the acquired 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 10% of the 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 8)		1,259,139
Provision for decommissioning		(1,728,647)
	\$	1,073,865
<hr/>		
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 reported on 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.

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.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

7. Business Combinations (continued)

During 2018, the Corporation incurred \$52,925 of 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. The pro forma information is not necessarily representative of future revenue and operations.

(c) 15% Working Interest (2018)

On December 21, 2018 the Corporation completed the acquisition of an additional 15% working interest in the producing properties acquired from the arms-length private corporate participant who was responsible for 80% of the acquisition described above 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 8)		1,299,708
Provision for decommissioning		(1,365,708)
	\$	937,500
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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.

On December 21, 2018, the day immediately following the acquisition date, the provision for decommissioning was remeasured 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. The pro forma information is not necessarily representative of future revenue and operations.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

8. Property and Equipment

	Petroleum and natural gas assets	Administrative assets	TOTAL
Cost	\$	\$	\$
Balance, December 31, 2017	13,310,524	16,061	13,326,585
Business combinations (Note 7)	2,373,587	–	2,373,587
Additions	844,614	–	844,614
Disposition	(235,083)	–	(235,083)
Decommissioning revisions (Note 12)	4,999,936	–	4,999,936
Balance, December 31, 2018	21,293,578	16,061	21,309,639
Business combinations (Note 7)	1,739,433	-	1,739,433
Additions	1,244,881	-	1,244,881
Disposition	(2,150,724)	-	(2,150,724)
Decommissioning revisions (Note 12)	1,367,994	-	1,367,994
Balance, December 31, 2019	23,495,162	16,061	23,511,223
Accumulated depletion, depreciation and impairment			
Balance, December 31, 2017	6,611,304	16,061	6,627,365
Depletion and depreciation	1,903,089	–	1,903,089
Impairment (Note 8)	3,346,048	–	3,346,048
Disposition	(232,116)	–	(232,116)
Balance, December 31, 2018	11,628,325	16,061	11,644,386
Depletion and depreciation	1,646,541	-	1,646,541
Disposition	(2,143,187)	-	(2,143,187)
Balance, December 31, 2019	11,131,679	16,061	11,147,740
Net carrying amount			
December 31, 2018	9,665,253	–	9,665,253
December 31, 2019	12,363,483	–	12,363,483

Future development costs

The December 31, 2019 depletion expense calculation included \$6,763,000 (2018 – \$3,516,000) for estimated future development costs associated with the Corporation's proved and probable reserves.

Dispositions

During 2019, the Corporation disposed of certain non-core assets and related liabilities for consideration of \$343,200 (net of customary adjustments) resulting in a gain on disposal of \$373,423. The assets consisted of the Corporation's interests within the Silverdale Cash Generating Units ("CGU").

Carrying amount of net assets sold:

Petroleum and natural gas assets	\$	2,150,724
Accumulated depletion and depreciation		(2,143,187)
Decommissioning provision		(37,760)
Net carrying value	\$	(30,223)
Consideration received		343,200
Gain on disposition	\$	373,423

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

8. Property and Equipment (continued)

On August 13, 2018, the Corporation completed a sale of certain wells in the Silverdale area for proceeds of \$125,000. The proceeds for 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	\$	2,967
Provision for decommissioning (Note 12)		(105,124)
Gain on property disposition		227,157
	\$	125,000
Consideration:		
Paid directly to the Corporation's primary lender (Note 11)	\$	125,000

Impairment

During the year ended December 31, 2019 and 2018, the Corporation recognized the following impairment losses:

	2019	2018
Petroleum and natural gas assets (Note 8)	–	3,346,048
Goodwill (Note 7)	–	2,558,847
	\$ –	\$ 5,904,895

Petroleum and natural gas assets

At December 31, 2019 and 2018, the Corporation identified certain business risks related to its petroleum and natural gas assets such as a decline in forward commodity prices. As a result, the Corporation tested its petroleum and natural gas CGUs for impairment at December 31, 2019 and 2018. As at December 31, 2019, the fair value less costs to dispose of the Corporation's petroleum and natural gas assets exceeded their carrying value and therefore no impairment was recorded. As at December 31, 2018, the estimate of the fair value less costs to dispose of the Corporation's Cuthbert, Hearts Hill and Luseland CGUs was less than the respective carrying values resulting in the recognition of a \$3,346,048 impairment loss.

The Corporation determined the recoverable amounts for its CGUs based on fair value less costs to dispose using discounted future cash flows prepared by independent reserve engineers. In determining the recoverable amount, the Corporation considered recent transactions within the industry, long-term views of commodity prices, externally evaluated reserve volumes, and discount rates specific to the CGUs. The calculation of the recoverable amount is sensitive to the assumptions regarding production volumes, discount rates, operating cost structures and commodity prices. The fair value less costs to dispose estimates are categorized as Level 3 according to the IFRS 13 fair value hierarchy. In computing the December 31, 2019 recoverable amounts, future cash flows were adjusted for risks specific to the CGUs, reduced by a cost to dispose of 2% and discounted using a discount rate of 15% (2018 – 2% cost to dispose; 15% discount rate).

Changes in any of the key judgments, such as a downward revision in reserves, a decrease in forecast benchmark commodity prices, changes in foreign exchange rates, an increase in royalties or an increase in operating costs would decrease the recoverable amounts of assets and any impairment charges would affect net loss. A five percent increase in the assumed discount rate would result in approximately \$nil (2018 - \$256,000) of further impairment.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

8. Property and Equipment (continued)

The following table provides the forecast benchmark commodity prices used in the December 31, 2019 and 2018 impairment calculations:

	December 31, 2019			December 31, 2018		
	Light Oil Cdn\$/bbl	Heavy Oil Cdn\$/bbl	Natural Gas Cdn\$/mcf	Light Oil Cdn\$/bbl	Heavy Oil Cdn\$/bbl	Natural Gas Cdn\$/mcf
2020	71.71	58.29	2.08	74.30	58.70	2.20
2021	74.03	61.44	2.35	78.50	65.20	2.55
2022	76.92	64.50	2.55	83.40	69.20	3.05
2023	80.13	67.07	2.65	85.10	70.60	3.20
2024	82.69	69.63	2.75			
Escalation rate thereafter	+ 2% per year	+ 2% per year	+ 2% per year	+ 2% per year	+ 2% per year	+ 2% per year

Goodwill

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

9. Trade and Other Payables

The Corporation's trade and other payables consist of:

	2019	2018
Trade payables	\$ 7,933,701	\$ 4,148,575
Accrued liabilities and other payables	154,756	213,778
Goods and Services Tax payable	–	57,939
	\$ 8,088,457	\$ 4,420,292

Trade payables are non-interest bearing and are normally settled between 30 to 120-day terms.

10. 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	300,000	–	300,000
Cash repayments	(310,000)	–	(310,000)
Disposition proceeds (Note 8)	(125,000)	–	(125,000)
Reversal of accretion (Note 18)	(219,651)	–	(219,651)
Expiry of share purchase warrants (Note 14(b))	–	(15,391)	(15,391)
Balance, December 31, 2018	\$ 4,915,125	\$ –	\$ 4,915,125
Cash repayments	(1,602,701)	–	(1,602,701)
Debt forgiveness	(900,000)	–	(900,000)
Balance, December 31, 2019	\$ 2,412,424	\$ –	\$ 2,412,424

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

10. Credit Facilities (continued)

As at December 31, 2019, \$2,412,424 (2018 - \$4,537,945) was outstanding in relation to Credit facility A and nil (2018 - \$377,180) was outstanding in relation to Credit Facility B. Total outstanding as at December 31, 2019 is \$2,412,424 (2018 - \$4,915,125).

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 (note 19);
- The interest rate on the Amended Credit Facilities shall reduce 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;
- 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;
- 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;

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

10. Credit Facilities (continued)

- 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 December 31, 2019, the Corporation was in compliance with all of the covenants above.

11. Provision for Decommissioning

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

- Total inflation-adjusted undiscounted future cash flows of \$14,549,131 (2018 – \$11,730,546)
- Annual inflation rate of 2% (2018 – 2%)
- Settlement of the liability occurring in approximately 1 to 15 years (2018 – 2 to 16 years)

Risk free discount rate of 1.90% to 2.10% (2018 – 1.66% to 2.22%)

	2019	2018
Balance, beginning of year	\$ 9,398,844	\$ 1,327,194
Business combinations (Note 7)	1,189,433	3,094,355
Additions and revisions	1,367,994	4,999,936
Disposition (Note 8)	(37,760)	(105,124)
Accretion	220,773	82,483
Balance, end of year	\$ 12,139,284	\$ 9,398,844

12. Taxes

The reconciliation of the Corporation's tax provision computed at the combined Canadian federal and provincial statutory rate of 27% (2018 – 27%) to the reported tax provision (recovery) is as follows:

	2019	2018
Loss for the year	\$ (93,873)	\$ (6,291,479)
Expected tax recovery	25,346	(1,868,799)
Non-deductible expenses	11,947	20,786
Change in deferred tax benefits not recognized	13,399	1,848,013
Deferred tax provision (recovery)	\$ –	\$ –

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

12. Taxes (continued)

Unrecognized deductible temporary differences

Deferred tax assets have not been recognized for the following deductible temporary differences as it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits:

	2019	2018
Property and equipment	\$ 639,595	\$ 1,886,145
Provision for decommissioning	12,139,284	9,398,844
Non-capital losses	5,001,439	6,372,006
Net capital losses	1,136,792	1,136,800
Share issue costs and other	527,809	594,400
Unrecognized deductible temporary differences	\$ 19,444,919	\$ 19,388,195

As at December 31, 2019, the Corporation has approximately \$5.0 million (2018 – \$6.4 million) of non-capital losses available to reduce future taxable income. The non-capital losses expire at various times between 2035 and 2038.

As at December 31, 2019 and 2018, the Corporation has approximately \$1.1 million of net capital losses which can be applied against future capital gains. These losses do not expire.

13. 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
Private placement (i)(ii)	19,820,000	991,000
Private placement proceeds received in advance (Note 23(a))	–	366,000
Share issue costs (ii)	–	(61,000)
Balance, December 31, 2018	46,192,311	\$ 11,539,391
Issue of share capital (iii)(iv)(v)	18,930,000	779,500
Issue of share capital proceeds received in advance	-	(366,000)
Issue of share purchase warrants	-	(297,834)
Share issue costs (iv)	-	(5,101)
Balance, December 31, 2019	65,122,311	\$ 11,649,956

- (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 2,000,000 of the common shares.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

13. Share Capital (continued)

- (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. One director and one officer of the Corporation subscribed for six million of the common shares.
- (iv) On June 18, 2019, the Corporation completed a non-brokered private placement of 3,020,000 units at a price of \$0.05 per unit for aggregate gross proceeds of \$151,000. Each Unit consists of one common share of the Corporation (a "Common Share") and one-half Common Share purchase warrant (a "Warrant"). The Warrants will not be listed. Each Warrant shall be exercisable for one half Common Share at a price of \$0.075 per Common Share for a period to and including June 17, 2021. The proceeds of the private placement will be used for working capital and continuing capital programs including the 15 percent interest purchased on the Luseland, Hearts Hill and Cuthbert properties. A finder's fee of \$5,100 was paid to an arm's length party.
- (v) On December 16, 2019, the Corporation completed a non-brokered private placement of 8,350,000 units at a price of \$0.03 per unit for aggregate gross proceeds of \$250,500. Each Unit consists of one common share of the Corporation (a "Common Share") and one-half Common Share purchase warrant (a "Warrant"). The Warrants will not be listed. Each Warrant shall be exercisable for one half Common Share at a price of \$0.06 per Common Share for a period to and including December 18, 2020. The proceeds of the private placement will be used for repayment of debt to the Corporation's principal lender, continuing capital programs and working capital.

(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
Expired	0.12	(7,698,333)	(214,963)
Balance, December 31, 2018	\$ 0.14	1,522,285	\$ 96,163
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

All share purchase warrants outstanding at December 31, 2019 are exercisable at both \$0.12, \$0.075 and \$0.06 per share until January 25, 2020, June 17, 2021 and December 18, 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 percent of the issued and outstanding shares. 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.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

13. Share Capital (continued)

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
Granted	1,000,000	0.05
Balance, December 31, 2018	2,350,000	\$ 0.07
Granted	2,050,000	0.05
Expired	(350,000)	0.10
Balance, December 31, 2019	4,050,000	\$ 0.06

The range of exercise prices of the outstanding options and exercisable options as at December 31, 2019 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	1.89
December 15, 2020	200,000	200,000	\$ 0.07	1.96
October 6, 2021	800,000	800,000	\$ 0.09	2.77
October 8, 2024	1,000,000	1,000,000	\$ 0.05	4.78
December 5, 2024	1,050,000	1,050,000	\$ 0.05	4.93
Total, December 31, 2019	4,050,000	4,050,000		3.07

14. Income (Loss) per Share

The following table reflects the income (loss) and share data used in the basic and diluted income (loss) per share calculations:

	2019	2018
Loss for the year	\$ (93,873)	\$ (6,921,479)
Number of common shares, January 1	38,155,708	26,372,311
Effect of common shares issued	17,043,644	11,783,397
Basis weighted average number of common shares	55,199,352	38,155,708
Basic and diluted loss per share	\$ (0.00)	\$ (0.18)

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

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

15. Related Party Transactions

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

- (a) During 2019, \$28,750 (2018 - \$117,255) was expensed for legal services provided by a law firm of which a director of the Corporation is a partner of which \$50,259 (2018 - \$123,044) is included in trade and other payables at December 31, 2019.
- (b) During 2019, management, consulting and engineering fees of \$176,000 (2018 - \$113,000) were charged by an officer of the Corporation and by a Corporation controlled by an officer of which \$27,800 (2018 - \$64,800) is included in trade and other payables at December 31, 2019.

16. 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 \$152,000 of salaries and benefits and \$144,000 of consulting fees for management personnel which are included in general and administrative expenses for the year ended December 31, 2019 (2018 - \$48,708 of salaries and benefits and \$113,000 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	\$ 144,000	\$ 113,000
Salaries and benefits	152,000	48,708
Share-based payments	42,659	76,162
Deferred share units	14,625	18,875
	\$ 353,284	\$ 256,745

During 2019, 222,436 deferred share units ("DSUs") (2018 - 295,513) were granted to directors. The fair value DSUs granted in 2019 was \$14,625 (2018 - \$18,875) 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	\$ 104,029
Granted	295,513	18,875
Cancelled	(244,885)	(5,750)
Revaluation	-	(72,880)
Balance, December 31, 2018	983,869	\$ 44,274
Granted	222,436	14,625
Revaluation	-	(25,416)
Balance, December 31, 2019	1,206,305	\$ 33,483

As at December 31, 2019, the Corporation had 1,206,305 DSUs outstanding (2018 - 983,869) for which the aggregate fair value of \$33,483 (2018 - \$44,274) is included in trade and other payables.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

17. 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 18). The Corporation's production is sold to a variety of purchasers under normal industry sale and payment terms. Accounts receivables 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 December 31, 2019, the Corporation has a working capital deficiency of \$7,248,749 and an accumulated deficit of \$22,508,308. The Corporation's ability to continue as a going concern (Note 2) is continuously dependent on the accessing additional financing and achieving profitable operations.

The Corporation's financial liabilities as at December 31, 2019 total \$10,500,881 comprised of \$8,088,457 of trade and other payables and \$2,412,424 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 December 31, 2019 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 as December 31, 2019.

Commodity price risk

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

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

17. Financial Risk Management and Capital Management (continued)

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 10).

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 year ended December 31, 2019. The Corporation's working capital deficiency at December 31, 2019 was \$7,248,749 (2018 – \$7,648,144). The Corporation's shareholders' deficiency at December 31, 2019 was \$22,508,308 (2018 – \$22,414,435).

18. Petroleum and Natural Gas Sales

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

	2019	2018
Petroleum	\$ 7,935,495	\$ 3,079,508
Natural gas	5,355	15,034
	\$ 7,940,850	\$ 3,094,542

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 year ended December 31, 2019, 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.

PROSPERA ENERGY INC.

(formerly Georox Resources Inc.)

Notes to the Financial Statements

For the year ended December 31, 2019 and 2018

19. Subsequent Events

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Corporation as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus.

Also, significant declines in crude oil spot prices and in stock markets have occurred for various reasons linked to the Coronavirus pandemic and other conditions impacting worldwide oil prices. The impairment tests for the Corporation's oil and gas assets are based on fair value less costs of disposal. As required by IFRS, we have not reflected these subsequent conditions in the recoverable estimates of our oil and gas assets as at December 31, 2019.

On April 8, 2020, the Corporation had the renewal of the loan extended to November 30, 2020 with the exception of the LLR being reduced to 1.25 due to the shut in of wells. Owing to the collapse of commodity prices and COVID-19, varying monthly payments have been agreed with the lender. As a result, the Corporation paid \$150,000 in advances for April, May and June and obtained a write down of debt from the lender of \$75,000. For July, August, September and October 2020 the amounts will be increased accordingly to meet the total commitments relating to the reduced amounts paid for April, May and June 2020.

Subsequent to year end, Prospera Energy Inc. appointed Patrick Simpson as a Board Director and both Robert R. Richardson and Daryl Fridhandler resigned as Chief Executive Officer and Chairman and Director, respectively.