Persta Resources Inc.

(incorporated under the laws of Alberta with limited liability)

Stock code: 3395

Annual Report 2016

PERSTA RESOURCES INC.

Persta Resources Inc. is a Calgary-based oil and gas exploration and development company focusing on liquids-rich gas and light crude oil in Western Canada with three core areas comprising: Alberta Foothills liquids-rich natural gas properties; Deep Basin Devonian natural gas properties; and Peace River light oil properties.

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FINANCIAL AND OPERATING HIGHLIGHTS

	Year ended December 31,		Increase/
	2016	2015	(Decrease)
	C$	C$	%
Revenue from crude oil and natural gas sales	**23,705,746**	16,079,598	47.4
Operating Netback[1]	**15,598,492**	11,371,467	37.2
Adjusted EBITDA[2]	**12,897,941**	9,041,303	42.7
Loss and total comprehensive loss for the year attributable to owners of the Company	**(2,285,804)**	(2,485,093)	–8.0
Total production volume (boe)	**1,310,000**	681,983	92.1
Annual average daily production volume (boe/d)	**3,579**	1,868	91.6

Notes:

(1) Operating Netback is a Non-IFRS Financial Measure calculated as revenue less royalties and operating costs. See "Non-IFRS Financial Measure" on page 36 of this annual report.

(2) Adjusted EBITDA is a Non-IFRS Financial Measure calculated as earnings before deduction of finance expenses, income tax, depletion and depreciation, impairment loss and write-offs, transaction costs and share-based compensation. See "Non-IFRS Financial Measure" on page 36 of this annual report.

FOUR-YEAR FINANCIAL SUMMARY

The results and assets and liabilities of the Company for the last four financial years, as extracted from the audited financial statements are as follows:

Results

	Year ended December 31,			
	2016	2015	2014	2013
	C$ 000	C$ 000	C$ 000	C$ 000
Revenue	**23,706**	16,080	32,424	23,497
Operating netback [(1)]	**15,598**	11,371	21,573	14,726
Net (loss) earnings	**(2,286)**	(2,485)	3,002	(654)

Note:

(1) Operating Netback is a Non-IFRS Financial Measure calculated as revenue less royalties and operating costs. See "Non-IFRS Financial Measure" on page 36 of this annual report.

Assets and Liabilities

	As at December 31,			
	2016	2015	2014	2013
	C$000	C$000	C$000	C$000
Total assets	**91,431**	100,546	105,078	92,597
Total liabilities	**(40,220)**	(48,709)	(53,238)	(118,559)
Total net assets	**51,211**	51,837	51,840	(25,962)
Share capital	**169,247**	167,036	165,006	—
Common shares to be issued	**—**	552	—	—
Accumulated deficit	**(118,036)**	(115,751)	(113,166)	(25,962)
Total shareholders' equity	**51,211**	51,837	51,840	(25,962)

CHAIRMAN'S STATEMENT

"On behalf of the Board of Directors, I am pleased to present the Annual Report of Persta Resources Inc. (the "Company") for the year ended December 31, 2016."

In 2017, through the efforts of our management and staff, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on March 10, 2017 resulting in raising gross proceeds of HK$220 million (approximately C$38 million). The proceeds from the global offering will be used to fund our future capital requirements for the development of our Alberta Foothills gas assets and Peace River oil assets, as well as working capital and general corporate purposes.

As at December 31, 2016, the Company held a total of 77 drilling locations, with five assigned to Proved, Probable plus Possible Reserves, eight assigned to Contingent Resources and 64 assigned to Prospective Resources. As at December 31, 2016, the Company had five wells in production and one other well that had been voluntarily and temporarily shut-in in Basing, and the Company had two wells in production and another one well that had been voluntarily and temporarily shut-in in Dawson.

During the year ended December 31, 2016, the Company sold natural gas to customers or companies who are involved in gas and oil trading. For the year ended December 31, 2016, the Company's revenue from the sales of natural gas increased by C$6,366,752 to C$20,049,946 compared to C$13,683,194 for the same period of 2015, representing 84.6% and 85.1% respectively of the total revenue. Further, during the year ended December 31, 2016, the sales volume of natural gas increased by 3,585,137 Mcf to 7,373,968 Mcf compared to 3,788,831 Mcf for the same period of 2015.

Natural gas is a cleaner burning fossil fuel. Natural gas power projects are increasingly considered as a complementary and bridging resource towards a dominant renewable energy power scenario. They are easier and quicker to implement than nuclear power projects and natural gas is considered a much cleaner resource than fossil fuels such as coal and oil. Since the end of August 2016, natural gas prices are exhibiting an increasing trend and they are expected to rise gradually in 2017. This reveals the high development potential of the industry in the future.

Going forward, we aim to increase our current production. We have established a three-year development plan during which a total of 13 drilling locations in Basing in the Alberta Foothills (with 3 drilling locations, 2 drilling locations and 8 drilling locations planned to be drilled in 2017, 2018 and 2019 respectively) will be drilled. These 13 drilling locations represent 100% of the Proved plus Probable Reserves and Best Estimate Contingent Resources estimated by GLJ.

In the long term, our business strategy is to maintain our competitiveness and growth and increase shareholder value by (i) optimizing the value of our existing natural gas and oil assets through efficient field development, drilling and completion; (ii) upgrading our reserves by drilling and developing our undeveloped land position; (iii) improving our drilling and completion techniques; and (iv) pursuing potential acquisition opportunities with significant value appreciation.

In closing, on behalf of the Board of Directors, I would like to express my sincere gratitude to our shareholders and business partners for their continuous support and confidence in the Company. I must also thank our staff for their efforts and dedication. Our achievements this year would not have been possible without the hard work and dedication of the Company's Board of Directors and staff.

Le Bo
Chairman

Calgary, Canada, April 26, 2017

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Below are the brief profiles of the current Directors and senior management of the Company.

Directors

The Board currently consists of five Directors, comprised of one executive Director, one non-executive Director and three independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Executive Director			
Mr. Le Bo (伯樂)	36	President, Chairman of the Board, Chief Executive Officer and executive Director	March 2005
Non-executive Director			
Mr. Yuan Jing (景元)	57	Non-executive Director	March 2005
Independent non-executive Directors			
Mr. Richard Dale Orman	67	Independent non-executive Director	February 2016
Mr. Bryan Daniel Pinney	64	Independent non-executive Director	February 2016
Mr. Peter David Robertson	65	Independent non-executive Director	February 2016

Executive Director

Mr. Le Bo (伯樂), aged 36, is the executive Director, President and Chief Executive Officer of the Company, the Chairman of the Board, the Chairman of the nomination committee and a member of the remuneration committee of the Board, and is one of the Controlling Shareholders.

Mr. Bo has over 11 years of experience in the natural gas and oil industry. Mr. Bo worked at Fairmont Hotels & Resorts and Suncor Energy Inc. as an independent contractor. Mr. Bo is the cofounder of the Company in 2005 and held the positions of the President and Chief Executive Officer since March 11, 2005. Since the founding of the Company, Mr. Bo has worked together with the management to formulate and implement all the natural gas and oil exploration projects of the Company and the development plan of the Company in the strategic level. Mr. Bo is primarily responsible for the Company's overall development and growth strategies, and supervision of key management issues.

Mr. Bo obtained his Bachelor of Applied Information Systems Technology from the Southern Alberta Institute of Technology in September 2003 and his Master of Business Administration degree from the China University of Petroleum (中國石油大學) in June 2015.

Non-executive Director

Mr. Yuan Jing (景元), aged 57, is a non-executive Director and is one of the Controlling Shareholders. Mr. Jing is primarily responsible for advising on business development matters. Mr. Jing has been appointed to the Board since 2005.

Mr. Jing has more than 20 years of experience in business. Mr. Jing is currently the chairman of the board of directors of JLHY since his appointment in 1996. Further, Mr. Jing has been appointed as the President and CEO of Jie Fang Road School (解放大路學校) since 1994. Since completing secondary education, Mr. Jing spent 12 years working as a bank clerk in the local branches of Industrial and Commercial Bank of China in Jilin Province, China, during 1981 to 1985 and 1985 to 1993.

Mr. Jing has served as the legal representative of the following companies: Shanghai Da Jia Wen Hua Chuan Buo Limited (上海大家文化傳播有限公司) since 2006; E Lun Chun Zi Zhi Qi Hong Yuan Kuang Ye Limited (鄂倫春自治旗弘原礦業有限公司) since 2012; Ji Lin Sheng Neng Yuan Kai Fa Limited (吉林省能源開發有限責任公司) since 1998; Sun Wu Xian Hong Yuan Mu Ye Limited (孫吳縣弘原鉬業有限公司) since 2008; Xi An Shi Ao Hua Investments Limited (西安市澳華投資有限公司) since 2000; Ji Lin Sheng Hong Yuan Jing Mao Group Limited (吉林省弘原經貿集團有限公司) since 1999; and Ji Lin Sheng Hong Yuan Jing Mao Group Limited Yuan Dong Yi Shu Guan (吉林省弘原經貿集團有限公司遠東藝術館) since 1999.

Mr. Jing confirmed that E Lun Chun Zi Zhi Qi Hong Yuan Kuang Ye Limited (鄂倫春自治旗弘原礦業有限公司) is principally engaged in the business of molybdenum minerals production and is not in competition with the existing business of the Company. Mr. Jing also confirmed that Ji Lin Sheng Neng Yuan Kai Fa Limited (吉林省能源開發有限責任公司) is principally engaged in the business of natural gas and oil wells maintenance services and is not in competition with the existing business of the Company.

Mr. Jing acted as the legal representative and chairman of the board of directors of the following companies: Ji Lin Sheng Ao Hua Jing Mao Limited (吉林省澳華經貿有限責任公司) from January 23, 2003; Ji Ling Sheng Chang Chun Ren Fang Shi Pin Shui Chan Jing Xiao Chu (吉林省長春人防食品水產經銷處) from April 28, 1992; and Ji Lin Sheng Ao Hua Zhi Ye Lan Qiu Ju Le Bu Limited (吉林省澳華職業籃球俱樂部有限公司) from May 18, 1999. However, the aforesaid companies had not participated in annual inspections pursuant to the relevant PRC requirements, as such, Mr. Jing's term ceased when the business licence of each of the aforesaid companies was revoked by the competent company registration authority in September 2003, October 2005, and November 2007 respectively. Mr. Jing confirmed that the competent company registration authority has not imposed any administrative penalty on Mr. Jing personally and he has not been subject to any relevant claims as a result of the revocation of the business licences of the aforesaid companies.

Independent Non-executive Directors

Mr. Richard Dale Orman, aged 67, is an independent non-executive Director, the Chairman of the remuneration committee and a member of the audit and risk committee of the Board. Mr. Orman is currently a senior counsel of the Canadian Strategy Group which provides government relations consultation in Canada.

Mr. Orman has over 40 years of experience in the oil and natural gas and energy industry. Mr. Orman was an Executive Assistant to Minister of Mines and Minerals of the Government of Alberta from 1972 to 1975 and a Special Assistant to Minister of Energy and Natural Resources of the Government of Alberta in 1976. From 1989 to 1992, Mr. Orman was the Minister of Energy of the Government of Alberta, responsible for overseeing, among others, Alberta Department of Energy and Alberta Petroleum Marketing Commission. As the Minister of Energy, Mr. Orman served as a delegate to the Organization of the Petroleum Exporting Countries, the United States Interstate Oil and Gas Compact Commission, and the South West Energy Council. Mr. Orman served as the Chairman and CEO of Kappa Energy Inc., an international energy exploration company, from 1994 to 1998, and as a director of Vanguard Oil Corp. from 1998 to 2001. From 2003 to 2005, Mr. Orman was the executive vice chairman of Exceed Energy Inc., which was listed on the Toronto Stock Exchange. From 2007 to 2011, Mr. Orman was a lead director of Daylight Energy Ltd, which was listed on the Toronto Stock Exchange. Further, Mr. Orman is a director of WesCan Energy Corporation, a company listed on the TSX Venture Exchange (CVE: WCE) and principally engaged in oil and gas production and exploration in Canada and the US with its major assets of light to medium oil-based products located in central Alberta and Saskatchewan, Canada. Mr. Orman also served as chief executive officer and director of NOR Energy AS, an oil and gas exploration company with its major assets located in the North Sea, Tanzania, Australia and Czech Republic, until 2011. Mr. Orman is also a shareholder of PLM Consultants Ltd, a Calgary based advisory services company established in 1981.

Mr. Orman obtained his Bachelor of Arts from the Eastern Washington University in December 1971.

Mr. Bryan Daniel Pinney, aged 64, is an independent non-executive Director, the Chairman of the audit and risk committee and a member of each of the remuneration and nomination committees of the Board. Mr. Pinney was appointed to the Board of Governors of Mount Royal University in May 2009 and designated Chair in September 2014 and also a director of North American Energy Partners Inc, a company listed on the Toronto Stock Exchange and New York Stock Exchange (TSE & NYSE: NOA) since May 13, 2015.

Mr. Pinney has more than 30 years of experience in financial auditing, valuation and advising companies in energy and natural resources. Mr. Pinney was Deloitte's Calgary Managing Partner from 2002 through 2007 and served as the National Managing Partner of Audit & Assurance from 2007 to 2011, and retired after being Vice Chairman at Deloitte from 2011 to 2015. Prior to joining Deloitte, Mr. Pinney was a partner of Andersen LLP from 1986 and the Calgary Managing Partner from 1991 through May 2002 and a member of the Board of Partners. Mr. Pinney was also a member of the ASC's Financial Advisory Committee, which advises the ASC's chief accountant on financial accounting and disclosure matters.

Mr. Pinney obtained a Bachelor of Arts in Business Administration from The University of Western Ontario in June 1975 and also completed the Directors Education Program offered by the Institute of Corporate Directors in Canada in April 2012. Mr. Pinney has been a Chartered Accountant since December 1978, a Fellow of the Chartered Accountants of Alberta since January 2009 and a Chartered Business Valuator of Canada since December 1990.

Mr. Peter David Robertson, aged 65, is an independent non-executive Director and a member of each of the audit and nomination committees of the Board.

Prior to joining the Company, Mr. Robertson worked at Pembina Pipeline Corporation (NYSE: PBA, TSX: PPL), a company listed on the New York Stock Exchange and the Toronto Stock Exchange, and its predecessors from 1985 to 2014. From 1985 to 1991, Mr. Robertson was the Accounting Manager before he was promoted to Controller in 1991 until 2000. From 2000 to 2013, Mr. Robertson was the Vice President, Finance and Chief Financial Officer. Mr. Robertson served as the Senior Vice President and Chief Financial Officer from 2013 to 2014.

Mr. Robertson graduated from Hermitage Academy, Helensburgh, Scotland in 1970, after which he entered into a 5 year Chartered Accountant program at the Institute of Chartered Accountants of Scotland. Mr. Robertson has been a Chartered Accountant of Scotland since November 1975 and a Chartered Accountant of Alberta since April 1980. He has been a holder of the Institute of Corporate Directors, Director designation in Canada since 2015.

Senior Management

The following table presents certain information concerning the senior management of our Company.

Name	Age	Year Joined	Position
Mr. Pingzai Wang (王平在)	50	2006	Senior Vice President, Exploration
Mr. Binyou Dai (代斌友)	47	2009	Vice President, Engineering
Ms. Jun Xiang (向隽)	35	2015	Interim Chief Financial Officer
Mr. Lei Song (宋磊)	33	2014	Vice President, Business Development

Mr. Pingzai Wang (王平在), aged 50, is the Senior Vice President, Exploration in charge of exploration activities of the Company. Mr. Wang joined the Company in October 2006 and served as Vice President, Exploration of the Company since April 2008. Mr. Wang has been involved in the natural gas and oil exploration projects since joining the Company.

Mr. Wang has over 28 years of experience in the natural gas and oil industry. He began his professional career in various oil and gas operations of China National Petroleum Corporation ("**CNPC**") in 1988 and has been the Senior Engineer since 1998. Mr. Wang was the Geologist, Chief Geologist and Exploration Manager of Daqing Exploration Company of Daqing Oilfield Company Limited (大慶油田有限責任公司), a subsidiary of CNPC for the period from July 1988 to June 2002. Mr. Wang is experienced in energy exploration activities and was involved in several major energy exploration and development projects, including oil and gas projects in Hailar Basin (Inner Mongolia, China), Tarim Basin (Xinjiang, China) and Indonesian projects (South Sumatra, Java and Irian Jaya, etc.) from 1988 to 2006 during his employment under CNPC. His expertise in exploration seismic interpretation and prospects generation through his experience in CNPC has contributed substantially to the growth of the Company.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang obtained his Bachelor of Engineering degree in Petroleum Geology in July 1988 from Daqing Petroleum Institute (大慶石油學院) (now known as Northeast Petroleum University (東北石油大學)). Mr. Wang has been a Professional Geoscientist of the Association of Professional Engineers and Geoscientists of Alberta ("**APEGA**") since August 2013.

Mr. Binyou Dai (代斌友), aged 47, joined the Company in June 2009 and was appointed as our Company's Vice President, Engineering on March 31, 2014. Mr. Dai has over 24 years of experience in working in the natural gas and oil industry and has been involved in the natural gas and oil engineering and facilities development of the Company since joining the Company.

Prior to joining the Company, Mr. Dai worked as a mechanical engineer for Wood Group Mustang, an engineering, procurement and construction management company, and was involved in the engineering and design of oil and gas projects in Canada, from May 2005 to May 2009. Mr. Dai has worked at CNPC since 1992 and was a Senior Engineer since December 2003 to February 2005. Mr. Dai has been involved in the development and upgrading of oil and gas facilities from engineering, construction to commissioning and start-up, project management in various projects in Sudan, Kuwait and China during his time at CNPC.

Mr. Dai obtained his Bachelor of Engineering degree in Petroleum Engineering in July 1992 from Daqing Petroleum Institute (大慶石油學院) (now known as Northeast Petroleum University (東北石油大學)) and his Masters of Engineering at the University of Calgary in November 2008. Mr. Dai has been a Professional Engineer of APEGA since March 2009, a Professional Engineer of the Association of Professional Engineers and Geoscientists of British Columbia since April 2009 and a Professional Engineer of the Association of Professional Engineers and Geoscientists of Saskatchewan since May 2009.

Ms. Jun Xiang (向雋), aged 35, is the Interim Chief Financial Officer of the Company. Ms. Xiang joined the Company in November 2015 and had been responsible for financial management of the Company. Ms. Xiang has over 5 years of experience in the oil and gas industry providing financial management and accounting services for mineral companies in Canada and the PRC. After joining the Company, Ms. Xiang has taken the responsibilities of financial reporting and analysis and hence been deeply involved in the natural gas exploration and production from a financial perspective.

During the period between February 2013 and November 2015, Ms. Xiang was the Financial Manager at Huadian Natural Gas Canada Limited, a subsidiary of China Huadian Corporation (中國華電集團公司), participating in a Liquefied natural gas ("**LNG**") project in the Pacific Northwest, as well as the Senior Corporate Accountant at Grande Cache Coal LLP. During her tenure with Huadian Natural Gas Canada Limited, Ms. Xiang was responsible for all the financial management, reporting and analysis for the company's proportionate share in the upstream production (95% natural gas) in Northeast British Columbia, Canada. Ms. Xiang also worked at PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) and Deloitte & Touche Financial Advisory Services Limited Beijing Branch (德勤諮詢(上海)有限公司北京分公司) from August 2006 to February 2013, and had participated in auditing, financial management consulting projects and financial due diligence services for major domestic and overseas oil and gas companies.

Ms. Xiang obtained her Bachelor of Economics degree in International Economics and Trade from the University of International Business and Economics (對外經濟貿易大學) in July 2003 and her Master of Economics degree from Beijing University of Posts and Telecommunications (北京郵電大學) in April 2006.

Ms. Xiang has been a non-practising member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since August 2015, a fellow member of the Association of Chartered Certified Accountants since January 2014, a Chartered Professional Accountant of Alberta since July 2015 and a Certified General Accountant of Canada since June 2011.

Mr. Lei Song (宋磊), aged 33, joined the Company as a Production Engineer in May 2014 and was promoted as Vice President, Business Development in March 2017. He has been involved in the monitoring and evaluation of the production of the Company and formulation of development plans of the Company. Mr. Song has 5 years of working experience in the natural gas and oil industry.

Prior to joining the Company, Mr. Song worked as a process engineer for CH2M Hill Energy Canada, Ltd. from August 2012 to April 2014 and was responsible in reviewing and conducting analysis for the production facilities and evaluating process performance in oil and gas projects. He worked as a field walk down specialist in Suncor Energy Inc. (TSX: SU, NYSE: SU), a company listed on the Toronto Stock Exchange and the New York Stock Exchange, from September 2011 to August 2012 and was involved in production and operation data analysis to optimise process and equipment operating conditions in natural gas and oil field. During the period from January 2011 to September 2011, he worked as a research assistant focusing on thermal solvent recovery at the oil sands development and research division of Imperial Oil Limited (TSX: IMO), a company listed on the Toronto Stock Exchange.

Mr. Song obtained his Bachelor of Science degree in Chemical Engineering and Processing and his Master of Science degree in Chemical Processing at the China University of Petroleum (中國石油大學) in June 2005 and June 2008, respectively. He also obtained his Master of Science in Chemical Engineering at the University of Calgary in June 2012. Mr. Song has been a Professional Engineer of APEGA since April 2015.

MANAGEMENT'S DISCUSSION and ANALYSIS

As of December 31, 2016, we held

114,528

net acres of lands in WCSB

The exit production of 2016 was

4,500

Boe/d.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") of the financial condition and performance of Persta Resources Inc. (the "**Company**" or "**Persta**") for the year ended December 31, 2016 is dated April 26, 2017. This MD&A should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2016. All amounts and tabular amounts are stated in thousands of Canadian dollars unless indicated otherwise.

Forward Looking Information

Certain statements in this MD&A are forward-looking statements that are, by their nature, subject to significant risks and uncertainties and the Company hereby cautions investors about important factors that could cause the Company's actual results to differ materially from those projected in a forward-looking statement. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will", "expect", "anticipate", "estimate", "believe", "going forward", "ought to", "may", "seek", "should", "intend", "plan", "projection", "could", "vision", "goals", "objective", "target", "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks (including the risk factors detailed in this MD&A), uncertainties and other factors some of which are beyond the Company's control and which are difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Since actual results or outcomes could differ materially from those expressed in any forward-looking statements, the Company strongly cautions investors against placing undue reliance on any such forward-looking statements. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on estimates and assumptions that the resources and reserves described can be profitably produced in the future. Further, any forward-looking statement speaks only as of the date on which such statement is made and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

All forward-looking statements in this MD&A are expressly qualified by reference to this cautionary statement.

Non IFRS Financial Measures

The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and sometimes referred to in this MD&A as Generally Accepted Accounting Principles ("**GAAP**") as issued by the International Accounting Standards Board ("**IASB**").

This MD&A also includes references to financial measures commonly used in the oil and natural gas industry. These financial measures are not defined by IFRS as issued by IASB and, therefore, are referred to as non-IFRS measures. The non-IFRS measures used by the Company may not be comparable to similar measures presented by other companies. See "Non-IFRS Financial Measures" for information regarding the following non-IFRS financial measures used in this MD&A: "operating netback", "adjusted EBITDA", "total debt" and "adjusted present value ratio (reserve based)".

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Persta is based in Calgary and is principally engaged in natural gas and crude oil exploration and production, with a focus on natural gas. Persta focuses on long-term growth through acquisition, exploration, development and production in the WCSB.

Persta commenced operations in March 2005 with the objective of building a successful Canadian natural gas and crude oil exploration, development and production company with a long-term business strategy. The Company acquired its first 6,400 net acres of land in an area in the WCSB in January 2007 known as the Alberta Foothills and drilled and commercially produced liquids-rich natural gas from the Company's first deep well in this area in December 2008. Since then, the Company's natural gas and oil production rate has organically grown and reached an average production of 3,579 Boe/d for the year ended December 31, 2016. The exit production for 2016 was approximately 4,500 Boe/d. As at December 31, 2016, the Company held 114,528 net acres of land in the WCSB, which the Company intends to explore through drilling in locations listed in the Company's multi-year inventory.

Presently, the Company has three core areas of operations:

- Alberta Foothills, which includes natural gas properties in the five areas of Basing, Voyager, Kaydee, Columbia and Stolberg. Basing is partially developed whilst Voyager, Kaydee, Columbia and Stolberg are undeveloped;
- Deep Basin Devonian, which includes undeveloped natural gas properties in Hanlan-Peco in West Alberta; and
- Peace River, which includes light oil properties in the Dawson area which is partially developed.

The Company's long-term business strategy is to increase shareholder value by continuing to exploit and develop its oil and natural gas asset base in the three core exploration and production areas to increase its reserves, production and cash flow. The Company believes that it has a number of key strengths that will help the Company execute its long-term business strategies, which include:

- economics and quality of resource base;
- size of resources within the Company's acreage land position;
- location of resources and market access;
- holding sole operating control and land ownership; and
- an experienced management and technical team with a strong industry track record.

The Company initiated an initial public offering process since 2015 and successfully listed on the Main Board of the Stock Exchange of Hong Kong on March 10, 2017 with the raising of gross proceeds of HK$220 million (approximately C$38 million).

Three-Year Development Plan

The Company's Proved, Probable and Possible Reserves, Contingent Resources and Prospective Resources are located within Basing, Voyager and Kaydee in the Alberta Foothills and within Dawson in Peace River, encompassing approximately 54,400 net acres of land and estimated by GLJ to hold approximately 77 drilling locations.

The Company acquired the PNG Licences for Basing, Voyager and Kaydee in the Alberta Foothills and for Dawson in Peace River between 2006 and 2016. The Company plans to initially develop our natural gas assets in Basing as part of the three-year development plan in addition to constructing certain facilities to support future increases in production and to lower production costs in the long run.

The Company also intends to explore and develop our Resources in Voyager and Kaydee in the Alberta Foothills and Dawson in Peace River into Reserves and also the undeveloped lands in Stolberg, Columbia and Deep Basin Devonian.

According to the three-year development plan, the Company intends to focus on drilling a total of 13 well locations in Basing in the Alberta Foothills. These 13 drilling locations represent 100% of the Proved plus Probable Reserves and Best Estimate Contingent Resources as estimated by GLJ.

Reserves and Resources

As at December 31, 2016, as estimated by GLJ, the Company held a total of 77 drilling locations, with five assigned to Proved, Probable plus Possible Reserves, eight assigned to Contingent Resources and 64 assigned to Prospective Resources. As at December 31, 2016, the Company had five wells in production and one other well that had been voluntarily and temporarily shut-in in Basing, and the Company had two wells in production and another one well that had been voluntarily and temporarily shut-in in Dawson.

The Reserves estimated by GLJ are below:

	Total	**Natural gas**	**Crude oil, condensate and other NGLs**
	Mboe	%	%
Gross Proved Reserves	11,758	94.8	5.2
Gross Proved plus Probable Reserves	17,386	94.9	5.1
Gross Proved plus Probable plus Possible Reserves	22,236	94.9	5.1
Gross Best Estimate Unrisked Contingent Resources	10,440	95.4	4.6
Gross Best Estimate Unrisked Prospective Resources	67,768	94.4	5.6

Operational Highlights

For the year ended December 31, 2016, the Company achieved progress in the following areas:

- Completed further completion project by opening the rest of 4 frac ports of our Wilrich well in Basing on September 18, 2016. Production has increased from approximately 4.2 mmcf/d prior to this operation to 5.6 mmsf/d as at December 31, 2016.

- Resumed the production from two oil wells in the Dawson area.
- Proposed three wells to be drilled in 2017 and completed lands package documents. Relevant drilling licences have also been approved and granted.
- Acquired a total of 8,640 acres of land in the Alberta Foothills with 100% working interest in 2016 to further expand the Company's lands position in core areas.
- Reached agreement with Canadian Natural Resources Limited (CNRL) for usage of their water disposal wells, which allows Persta to reduce the cost for trucking and disposal of produced water from the wells in the Dawson area.

Selected Annual Information

	Year ended December 31,		
	2016	2015	2014
AVERAGE DAILY PRODUCTION			
Natural gas (mcf)	**20,147**	10,380	15,611
Crude oil (bbls)	**61**	54	102
NGL and Condensate (bbls)	**161**	85	81
Oil Equivalent (boe)	**3,579**	1,868	2,786
AVERAGE SALES PRICES			
Natural gas (C$ per mcf)	**2.72**	3.61	4.70
Crude oil (C$ per bbl)	**49.53**	49.09	93.50
NGL (C$ per bbl)	**19.96**	17.98	51.05
Condensate (C$ per bbl)	**52.81**	61.81	88.92
FINANCIAL ($000)			
Revenue	**23,706**	16,080	32,424
Royalties	**(1,780)**	(1,072)	(5,295)
Operating costs	**(6,327)**	(3,636)	(5,556)
Operating netback[1]	**15,599**	11,372	21,573
Net (loss) earnings	**(2,286)**	(2,485)	3,002
Net working capital[2]	**5,122**	6,923	4,514
Total assets	**91,431**	100,547	105,078
Capital expenditures	**1,412**	5,374	18,208
OPERATING NETBACK PER SHARE[3]			
Per basic share	**0.07**	0.06	0.14
Per diluted share	**0.07**	0.06	0.14
(LOSS)/PROFIT PER SHARE			
Per basic share	**(0.01)**	(0.01)	0.02
Per diluted share	**(0.01)**	(0.01)	0.02

Notes:

(1) Non-IFRS measure — see discussion under the heading "Non-IFRS Financial Measures".

(2) Net working capital consists of current assets less current liabilities.

(3) Operating netback per share is a Non-IFRS Financial Measures calculated as operating netback divided by weight average number of common shares.

Key Financial Ratios

	Year ended December 31,		
	2016	2015	2014
Current ratio[1]	**2.48x**	4.08x	1.79x
Return on assets[2]	**–2.7%**	–2.5%	2.9%
Return on equity[3]	**–4.9%**	–4.8%	5.8%
Gearing ratio[4]	**61.8%**	87.9%	90.9%

Notes:

(1) Current assets divided by current liabilities

(2) (Loss)/profit and total comprehensive income for the year/period divided by total assets and multiplied by 100%

(3) (Loss)/profit and total comprehensive income for the year/period attributable to owners of the Company divided by total equity and multiplied by 100%

(4) Total debt which represents bank indebtedness, bank loan, shareholders' loan and other debts divided by total equity and multiplied by 100%

Results of Operations

Project Development and Production Volume

There are three phases in the Company's operations, comprising the exploration phase, development phase and production phase. During the exploration phase, the Company conducted geological and geophysical studies combined with seismic mapping to propose drilling locations which might generate natural gas and crude oil prospects on the undeveloped land the Company has acquired. As at December 31, 2016, as estimated by GLJ, the Company's land held 77 drilling locations.

During the development and production phases, the Company's production volume largely depended on its drilling and production schedule. There were 5 producing wells both as at December 31, 2016 and 2015. Due to the recovery of market prices, the Company temporarily increased the production volume, and the production volume of natural gas increased from 3,788,831 Mcf in 2015 to 7,373,968 Mcf in 2016. The production volume of natural gas was 2,190,584 Mcf for the three months ended December 31, 2016, representing 29.7% of 2016 production volume. NGLs and condensate are the by-products from the production of natural gas. The production volume of NGLs and condensate increased from 30,975 Bbl in 2015 to 58,797 Bbl in 2016. The production volume of NGLs and condensate was 17,309 Bbl for the three months ended December 31, 2016, representing 29.4% of 2016 production volume.

The price forecasts determined by management may directly affect the production volume of the Company. Producing wells may be shut in due to economic limit considerations and the production plan may be delayed or scaled down if management concluded adverse price forecasts on the natural resources. For the years ended December 31, 2015 and 2016, the number of wells of crude oil in production increased from 1 in 2015 to 3 in 2016 mainly due to the recovery of the market price of crude oil since the second half of 2016. The Company's production volume of crude oil increased from 19,536 Bbl in 2015 to 22,209 Bbl in 2016, mainly due to the increased number of wells in production. The production volume of crude oil was 6,110 Bbl for the three months ended December 31, 2016, representing 27.5% of that in 2016.

For the years ended December 31, 2015 and 2016, the Company's total production volume was 681,983 Boe and 1,310,000 Boe, respectively. The total production volume was 388,516 Bbl for the three months ended December 31, 2016, representing 29.7% of that in 2016.

The table below shows the number of producing wells and production volume for the Company's natural gas, crude oil, NGLs and condensate for the years ended December 31, 2015 and 2016:

	Year ended December 31,		
	2016	2015	Change
Natural gas			
Producing wells	**5**	5	0.0%
Production volume (Mcf)	**7,373,968**	3,788,831	94.6%
Crude oil			
Producing wells	**3**	1	200.0%
Production volume (Bbl)	**22,209**	19,536	13.7%
NGLs and Condensate (by-product of natural gas)			
Producing wells	**5**	5	0.0%
Production volume (Bbl)	**58,797**	30,975	89.8%

The Company intends to explore its undeveloped land position of 111,168 net acres to upgrade its resources to reserves by drilling and developing its 77 drilling locations as estimated by GLJ to focus on drilling a total of 13 drilling locations in Basing in the Alberta Foothills area from 2017 to 2019.

Average Sales Price

The Company mainly sells its natural gas, natural gas related products (NGLs and condensate) and crude oil products to gas and oil trading companies or companies involved in gas and oil trading. The selling price of its natural gas benchmarks to Canadian Gas Price Reporter, which is also known as the Alberta Energy Company natural gas price ("**AECO natural gas price**"), while the natural gas related products (NGLs and condensate) and crude oil products benchmark to the monthly average of WTI commodity price. During the year ended December 31, 2016, the Company also entered into one-year sales agreements to forward sell its natural gas at a specified price and volume. These sales values accounted for 50.0% of its total revenue from crude oil and natural gas sales for the year ended December 31, 2016 compared with 72.2% in 2015. Therefore, the sales of remaining production which accounted for 50.0% of its total revenue from crude oil and natural gas sales for the year ended December 31, 2016 compared with 27.8% in 2015 were sensitive to the respective market price movements.

The table below shows the average market prices and average sales prices for the Company's natural gas, crude oil, NGLs and condensate and the average realized sales price and forward sales price for the Company's natural gas for the years ended December 31, 2016 and 2015:

	Year ended December 31,		
	2016 C$	2015 C$	Change %
Natural gas			
Average market price (C$ per Mcf)(Note 1)	**2.37**	2.74	–13.5%
Average realized price (C$ per Mcf)(Note 2)	**2.29**	2.43	–5.8%
Average forward sales price (C$ per Mcf)(Note 3)	**3.12**	3.95	–21.0%
Average sales price (C$ per Mcf)(Note 4)	**2.72**	3.61	–24.7%
Crude oil			
Average market price (C$ per Bbl)(Note 5)	**57.32**	62.29	–8.0%
Average sales price (C$ per Bbl)(Note 4)	**49.53**	49.09	0.9%
NGLs			
Average market price (C$ per Bbl)(Note 5)	**23.70**	21.62	9.6%
Average sales price (C$ per Bbl)(Note 4)	**19.96**	17.98	11.0%
Condensate			
Average market price (C$ per Bbl)(Note 5)	**56.12**	60.42	–7.1%
Average sales price (C$ per Bbl)(Note 4)	**52.81**	61.81	–14.6%

Notes:

(1) The average market price was the AECO same day spot price averaged over the period.

(2) The average realised price represents the average price of natural gas sales excluding the sales derived from forward sales.

(3) The average forward sales price was the price agreed in the forward sales agreements to sell the Company's natural gas at a specified price and volume.

(4) The average sales price was the weighted average price calculated by the Company.

(5) The average market price was the average WTI daily settlement price of the near month contract over the period price.

The Company's average sales price of natural gas consisted of the weighted average of the average realized price and the average forward sales price of natural gas. The average realized price represents the average price of natural gas sales excluding the sales derived from forward sales. The Company's average realized price of natural gas decreased from C$2.43 per Mcf for the year ended December 31, 2015 to C$2.29 per Mcf for the year ended December 31, 2016, mainly due to market price movements. The average realized price of natural gas was C$3.45 per Mcf for the three months ended December 31, 2016, mainly due to recovery of market price.

The Company's average sales price of crude oil slightly increased from C$49.09 per Bbl for the year ended December 31, 2015 to C$49.53 per Bbl for the year ended December 31, 2016, mainly due to market price movements. The average realized price of crude oil was C$55.82 per Bbl for the three months ended December 31, 2016, mainly due to recovery of market price.

The Company's average sales price of NGLs increased from C$17.98 per Bbl for the year ended December 31, 2015 to C$19.96 per Bbl for the year ended December 31, 2016 while condensate prices decreased from C$61.81 per Bbl for the year ended December 31, 2015 to C$52.81 per Bbl for the year ended December 31, 2016, mainly due to market price movements. The average realized price of NGLs and condensate were C$25.40 per Bbl and C$60.71 per Bbl for the three months ended December 31, 2016, mainly due to recovery of market price.

The Company sold its natural gas benchmarked to the AECO natural gas price and its crude oil and NGLs and condensate benchmarked to monthly average WTI commodity prices. The Company also entered into forward sales agreements to sell its natural gas over a time period at a specified price and volume. Since the Company used the weighted average to calculate the average sales prices, the volatilities in price and volume sold in each month led to the average sales price of crude oil, NGLs and condensate which were lower than the average market price for the years ended December 31, 2016 and 2015 and the average realized price of natural gas was lower than the average market price for the years ended December 31, 2016 and 2015.

Revenue

The following table shows the breakdown of the Company's revenue before royalties by types of natural resources and their respective percentage of the total revenue for the years ended December 31, 2016 and 2015:

	Year ended December 31,			
	2016		2015	
	C$'000	**%**	C$'000	%
Natural gas	**20,050**	**84.6%**	13,683	85.1%
Crude oil	**1,100**	**4.6%**	959	6.0%
NGLs and condensate	**2,556**	**10.8%**	1,438	8.9%
Total revenue	**23,706**	**100.0%**	16,080	100.0%

The Company's revenue was derived from sales of: (i) natural gas; (ii) crude oil; and (iii) NGLs and condensate.

Sales of Natural Gas

During the year ended December 31, 2016, the Company sold natural gas to customers which were gas and oil trading companies or companies who are involved in gas and oil trading. For the year ended December 31, 2016, the Company's revenue from the sales of natural gas increased by C$6,366,752 to C$20,049,946 compared to C$13,683,194 for the same period in 2015, representing 84.6% and 85.1% respectively of the total revenue. The revenue from the sales of natural gas was C$7,388,197 for the three months ended December 31, 2016, representing 36.6% of that in 2016.

The revenue derived from the Company's sales of natural gas was mainly subject to the average sales price and the sales volume of natural gas. During the year ended December 31, 2016, the sales volume of natural gas increased by 3,585,137 Mcf to 7,373,968 Mcf compared to 3,788,831 Mcf for the same period in 2015. The sales volume of the Company's natural gas was subject to the development projects in the Alberta Foothills and the Company increased its production volume according to the recovery of market price.

During the year ended December 31, 2016, the Company also entered into forward sales contracts to sell its natural gas at a specified price which decreased by C$0.83 per Mcf to C$3.12 per Mcf compared to C$3.95 per Mcf for the same period in 2015. The Company sold the remaining gas to the market at market prices corresponding to the time at which it was sold. The average realized price of the Company's natural gas was highly sensitive to Canadian Gas Price Reporter, with a premium to the Canadian Gas Price Reporter due to the higher heat value of the gas the Company produced. During the year ended December 31, 2016, the average realized price of natural gas decreased by C$0.14 per Mcf to C$2.29 per Mcf compared to C$2.43 per Mcf for the same period in 2015. The Company's average sales price of natural gas consisted of the weighted average of the average realized price and the forward sales price of natural gas which decreased by C$0.89 per Mcf to C$2.72 per Mcf compared to C$3.61 per Mcf for the same period in 2015.

The following table shows the sales volume and average sales price of the Company's natural gas for the years ended December 31, 2016 and 2015:

	Year ended December 31,		
	2016	2015	Change %
Sales volume (Mcf)	**7,373,968**	3,788,831	94.6%
Average sales price (C$/Mcf)	**2.72**	3.61	–24.7%

Sales of Crude Oil

During the year ended December 31, 2016, the Company sold crude oil to a customer which was a trading company in Canada. For the year ended December 31, 2016, the Company's revenue from the sales of crude oil increased by C$141,038 to C$1,099,978 compared to C$958,940 for the same period in 2015, representing 4.6% and 6.0% respectively of the total revenue. The revenue from the sales of crude oil was C$341,070 for the three months ended December 31, 2016, representing 31.0% of that in 2016.

The revenue derived from the Company's sales of crude oil was mainly subject to the average sales price and the sales volume of crude oil. During the year ended December 31, 2016, the sales volume of crude oil increased by 2,673 Bbl to 22,209 Bbl compared to 19,536 Bbl for the same period in 2015. The sales volume of its crude oil related to the projects in Peace River.

The average sales price of the Company's crude oil was highly sensitive to WTI crude oil price. The average sales price of crude oil was increased by C$0.44 per Bbl to C$49.53 per Bbl compared to C$49.09 per Bbl for the same period in 2015.

The following table shows the sales volume and average sales price of the Company's crude oil for the years ended December 31, 2016 and 2015:

	Year ended December 31,		
	2016	2015	Change %
Sales volume (Bbl)	**22,209**	19,536	13.7%
Average sales price (C$/Bbl)	**49.53**	49.09	0.9%

Sales of NGLs and Condensate

During the year ended December 31, 2016, the Company sold NGLs and condensate to customers which were oil and gas trading companies in Canada. For the year ended December 31, 2016, the Company's revenue from the sales of NGLs and condensate increased by C$1,118,358 to C$2,555,822 compared to C$1,437,464 for the same period in 2015, representing 6.0% and 4.6% respectively of the total revenue. The revenue from the sales of NGLs and condensate was C$875,269 for the three months ended December 31, 2016, representing 34.2% of that in 2016.

The revenue derived from the Company's sales of NGLs and condensate was mainly affected by the average sales price and sales volume of such products. During the year ended December 31, 2016, the sales volume of NGLs and condensate increased by 27,822 Bbl to 58,797 Bbl compared to 30,975 Bbl for the same period in 2015. The sales volume of its NGLs and condensate related to the development projects in the Alberta Foothills.

Both the average sales price of the Company's NGLs and condensate were highly sensitive to the WTI commodity price and demand of petrochemical industry. The average sales price of its NGLs was increased by C$1.98 per Bbl to C$19.96 per Bbl compared to C$17.98 per Bbl for the same period in 2015. The average sales price of its condensate was decreased by C$9.00 per Bbl to C$52.81 per Bbl compared to C$61.81 per Bbl for the same period in 2015.

The following table shows the sales volume and average sales price of the Company's NGLs and condensate for the years ended December 31, 2016 and 2015:

	Year ended December 31,		
	2016	2015	Change %
Sales volume (Bbl)	**58,797**	30,975	89.8%
Average sales price (C$/Bbl)	**43.47**	46.41	–6.3%

Production Costs and Total Operating Costs

The production costs and total operating costs of the Company include royalties and operating costs as set out in the financial statement.

Royalties

	Year ended December 31,		
	2016 C$'000	2015 C$'000	Change %
Natural gas, NGLs and condensate	**1,487**	757	96.4%
Crude oil	**293**	315	–7.0%
	1,780	1,072	66.0%

For the year ended December 31, 2016, royalties paid for natural gas, NGLs and condensate increased by C$730,974 to C$1,487,569 compared to C$756,895 for the same period in 2015, representing 83.6% and 70.6% respectively of the total royalties. For the three months ended December 31, 2016, royalties paid for natural gas, NGLs and condensate was C$594,154, representing 39.9% of that in 2016.

For the year ended December 31, 2016, royalties paid for crude oil decreased by C$22,031 to C$292,772 compared to C$314,803 for the same period in 2015, representing 16.4% and 29.4% respectively of the total royalties. For the three months ended December 31, 2016, royalties paid for crude oil was C$83,540, representing 28.5% of that in 2016.

Alberta requires royalties to be paid on the production of natural resources from lands for which it owns the mineral rights. In Alberta, royalties are mainly subject to royalty rate and royalty base, which are set by a sliding scale formula containing separate elements that account for market price and well production.

During the year ended December 31, 2016, the Company's royalty rate for natural gas ranged from 5% to 33.01%, the royalty rate for NGLs (propane and butane) was 30% and the royalty rate for condensate was 40%. The Company's royalty rate for natural gas was also influenced by the Natural Gas Deep Drilling Program ("**NGDDP**") under which the government would grant royalty incentives to natural gas wells with a true vertical depth of greater than 2,000 metres.

During the year ended December 31, 2016, the Company's royalty rate for crude oil ranged from 0% to 40%.

Operating Costs

For the year ended December 31, 2016, operating costs increased by C$2,690,480 to C$6,326,913 compared to C$3,636,433 for the same period in 2015, which was, mainly due to the increase in production volumes of natural gas, crude oil and NGLs and condensate. For the three months ended December 31, 2016, operating costs were C$1,858,544, representing 29.4% of that in 2016.

The following table shows the breakdown of operating costs for the years ended December 31, 2016 and 2015:

Operating Costs

	Year ended December 31,		
Total operating costs	**2016 C$'000**	2015 C$'000	Change %
Natural gas, NGLs and condensate	**6,043**	3,345	80.7%
Crude oil	**284**	291	–2.4%
Total	**6,327**	3,636	74.0%
Average operating cost	**C$**	C$	%
Natural gas, NGLs and condensate (Per Boe)	**4.69**	5.05	–7.1%
Crude oil (Per Bbl)	**12.78**	14.94	–14.5%
Average Cost (Per Boe)	**4.83**	5.33	–9.4%

Most of the Company's revenue was generated from the sales of natural gas, NGLs and condensate. As a result, the operating costs from the natural gas related business accounted for 95.5% of the total costs for the year ended December 31, 2016 compared to 92.0% of that in 2015 whereas operating costs from the crude oil related business accounted for 4.5% of the total costs for the year ended December 31, 2016 compared to 8.0% of that in 2015. The average operating cost per Boe for the year ended December 31, 2016 was decreased by C$0.50 to C$4.83 compared to C$5.33 for the same period in 2015.

Natural Gas, NGLs and Condensate

For the year ended December 31, 2016, the operating costs spent for the natural gas, NGLs and condensate related business increased by C$2,698,536 to C$6,043,138 compared to C$3,344,602 for the same period in 2015, representing 95.5% of the total operating costs compared to 92.0% in 2015, which was mainly due to the increase in production volumes of natural gas and NGLs. For the three months ended December 31, 2016, the operating costs spent for the natural gas, NGLs and condensate related business was C$1,766,644, representing 29.2% of that in 2016.

The average operating cost per Boe in the year ended December 31, 2016 was decreased by C$0.36 to C$4.69 compared to C$5.05 for the same period in 2015.

Crude Oil

For the year ended December 31, 2016, the operating costs for the crude oil related business decreased by C$8,055 to C$283,776 compared to C$291,831 for the same period in 2015, representing 4.5% of the total operating costs compared to 8.0% of that in 2015, which was mainly due to the cost savings in transportation of crude oil. For the three months ended December 31, 2016, the operating costs spent for the crude oil related business was C$91,901, representing 32.4% of that in 2016.

The average operating cost per Bbl for the year ended December 31, 2016 decreased by C$2.16 to C$12.78 compared to C$14.94 for the same period in 2015.

General and Administrative Costs

For the year ended December 31, 2016, general and administrative costs mainly consisted of staff costs, accounting, legal and consulting fees, office rent and other. Other mainly included office supplies, insurance and travel and accommodation, etc. For the year ended December 31, 2016, general and administrative costs increased by C$381,561 to C$2,711,725 compared to C$2,330,164 for the same period in 2015, which was mainly due to an increase in staff cost. For the three months ended December 31, 2016, general and administrative costs was C$681,937, representing 25.1% of that in 2016.

The following table shows the breakdown of general and administrative costs for the years ended December 31, 2016 and 2015:

	Year ended December 31,		
	2016	2015	Change
	C$'000	C$'000	%
Staff costs	**1,513**	1,171	29.2%
Accounting, legal and consulting fees	**252**	268	–6.0%
Office rent	**530**	480	10.4%
Other	**417**	411	1.5%
Total general and administrative cost	**2,712**	2,330	16.4%
Capitalized staff costs	**444**	848	–47.6%

For the year ended December 31, 2016, the staff costs (excluding share-based compensation) increased by C$341,329 to C$1,512,694 compared to C$1,171,365 for the same period in 2015, representing 55.8% of the total general and administrative costs for the year ended December 31, 2016 compared to 50.3% of that in 2015. The increase in staff costs was mainly due to: (i) compensation for the independent non-executive directors of the Company for the year of 2016 in the amount of C$250,000; and (ii) offset by a decrease of capitalized staff costs due to less time being spent on capital activities.

During the year ended December 31, 2016, the accounting, legal and consulting fees decreased by C$15,718 to C$251,886 compared to C$267,604 for the same period in 2015, representing 9.3% of the total general and administrative cost for the year ended December 31, 2016 compared to 11.5% of that in 2015. The accounting, legal and consulting fees mainly include expenses spent on: (i) annual audit fees; (ii) lawyers' fees for legal matters; and (iii) reserve evaluation and reporting fees. The listing fees were reclassified as transaction costs and separately disclosed.

Finance Expenses

For the year ended December 31, 2016, the finance expenses mainly consisted of interest expense on bank debt, financing cost, amortization of debt issuance costs and accretion expense. For the year ended December 31, 2016, the finance expenses increased by C$129,995 to C$3,405,005 compared to C$3,275,010 for the same period in 2015, which was mainly due to the increase of commission and commitment fees in interest expense and financing costs. For the three months ended December 31, 2016, the finance expenses was C$1,011,876, representing 29.7% of that in 2016.

The following table shows the breakdown of the finance expenses for the years ended December 31, 2016 and 2015:

	Year ended December 31,		
	2016	2015	Change
	C$'000	C$'000	%
Interest expense and financing cost	**3,063**	2,937	4.3%
Amortization of debt issuance costs	**315**	318	–0.9%
Accretion expense	**27**	20	35.0%
Total finance expenses	**3,405**	3,275	4.0%

Amortization of debt issuance costs represented legal fees, commissions and commitment fees, which had been incurred due to closing of the credit and term facility arrangement in 2014. These costs were capitalized against the bank loan account and then amortized as a debt issuance costs account.

The accretion expense was an expense recognized when updating the present value of the decommissioning provision.

Depletion and Depreciation

For the year ended December 31, 2016, the depletion expense comprised the depletion of developed and producing assets, and the depreciation expense comprised the depreciation of office fixed assets, such as office furniture, office equipment, vehicles, computer hardware and computer software. For the year ended December 31, 2016, the depletion and depreciation expense increased by C$3,168,292 to C$7,764,395 compared to C$4,596,103 for the same period in 2015, which was mainly due to the increase in production volumes of natural gas in the Alberta Foothills. For the three months ended December 31, 2016, the depletion and depreciation expense was C$2,257,704, representing 29.1% of that in 2016.

The following table shows the breakdown of the depletion and depreciation expenses for the years ended December 31, 2016 and 2015:

	Year ended December 31,		
	2016	2015	Change
	C$'000	C$'000	%
Depletion	**7,756**	4,570	69.7%
Depreciation	**8**	26	–69.2%
Total depletion and depreciation	**7,764**	4,596	68.9%
	C$	C$	%
Per Boe	**5.93**	6.79	–12.7%

Depletion

During the year ended December 31, 2016, the depletion expenses increased by C$3,185,418 to C$7,755,885 compared to C$4,570,467 for the same period in 2015 which was mainly due to the increase in production volume.

Depletion is calculated using the depletion base and the depletion ratio. The depletion base depended on the net book value of developed and producing assets at the end of the year and future development cost, while the depletion ratio depended on production volume for the year and total proved and probable reserves at the beginning of the year.

Depreciation

During the year ended December 31, 2016, the depreciation expenses decreased by C$17,126 to C$8,510 compared to C$25,636 for the same period in 2015, which was mainly due to certain property, plant and equipment being fully depreciated in 2015.

Impairment Losses and Write-offs

During the year ended December 31, 2016, the fluctuation of impairment losses and write-offs was mainly due to the decline in the forecasted price of the Company's crude oil and natural gas resources and the expiry of certain Crown Leases and PNG Licences. For the year ended December 31, 2016, the impairment losses and write-offs decreased by C$2,300,750 to C$812,452 compared to C$3,113,202 for the same period in 2015, which was mainly due to the decrease in direct write-offs of exploration and evaluation costs primarily related to exploration lands held by the Company that were allowed to expire. There was no impairment loss during the three months ended December 31, 2016.

During the year ended December 31, 2016, the Company recorded direct write-offs of exploration and evaluation lands totaling C$812,452 as a result of the Company's decision to allow certain non-core lands with no future prospective value to expire. During the year ended December 31, 2015, the Company recorded direct write-offs of exploration and evaluation lands totaling C$2,363,231 primarily as a result of the decision to allow certain non-core lands with no future prospective value to expire. With respect to property, plant and equipment, the Company had no direct write-offs of property, plant and equipment or impairments during the year ended December 31, 2016. The Company recorded direct write-offs and impairments totaling C$749,971 for the year ended December 31, 2015, primarily relating to the expiry of C$541,966 of non-core lands with no future prospective value and C$208,005 of impairment as a result of decreasing commodity prices.

Share-based Compensation

For the year ended December 31, 2016, share-based compensation amounted to C$221,332. During the year ended December 31, 2016, the Company issued Class B Shares to employees for cash proceeds. The deemed price of Class B Shares issued was higher than the actual price, which resulted in share-based compensation of C$221,332. There was no share-based compensation during the three months ended December 31, 2016.

Transaction Costs

For the year ended December 31, 2016, transaction costs increased by C$2,438,480 to C$2,980,561 compared to C$542,081 for the same period in 2015. For the three months ended December 31, 2016, transaction costs were C$720,437, representing 24.2% of that in 2016.

During the year ended December 31, 2015 the Company initiated a process to become a listed entity on The Stock Exchange of Hong Kong Limited. The costs associated with the issuance of new equity were recorded as deferred financing costs (see note 9) whereas costs associated with the listing were expensed as transaction costs. On March 10, 2017, the Company successfully listed on the Stock Exchange of Hong Kong and the Company issued 69,580,000 new shares at a price of HK$3.16 per share (C$0.54 per share), resulting in gross proceeds of HK$220 million (approximately C$38 million). The costs associated with the issuance of new equity are estimated at approximately C$3 million and therefore the net amount to be recorded as share capital is estimated to be approximately C$35 million. The deferred financing costs were reclassified against share capital upon issuance of the new shares in March 2017 and the Company has estimated further transactions costs have been incurred in fiscal 2017 totalling approximately C$3 million which will be expensed in fiscal 2017.

Realized Gain/(loss) on Financial Derivative Instruments

The Company did not enter into any financial derivatives for the years ended December 31, 2016 and 2015.

Income Taxes

For the years ended December 31, 2016 and 2015, there were no income taxes paid, which was mainly due to the Company having approximately C$108.6 million of tax pools for deductions as at December 31, 2016.

Net Loss

As a result of the abovementioned reasons, the net loss for the year ended December 31, 2016 decreased by C$199,289 to C$2,285,804 compared to C$2,485,093 for the same period in 2015. The net profit for the three months ended December 31, 2016 was C$1,356,489, which decreased the net loss from C$3,642,293 for the nine months ended September 30, 2016 to C$2,285,804 for the year ended December 31, 2016.

Liquidity and Capital Resources

Capital Structure of the Company

The Company's capital structure is as follows:

	As at December 31, 2016 C$'000	As at December 31, 2015 C$'000
Bank loan[1]	**35,622**	45,580
Net working capital[2]	**(5,122)**	(6,923)
Net debt[3]	**30,500**	38,657
Shareholders' equity	**51,211**	51,837
Total Capital	**81,711**	90,494
Net debt as a percentage of total capital (%)	**37.3%**	42.7%

Notes:

(1) This amount only includes the actual drawdown from the credit facility.

(2) Net working capital consists of current assets less current liabilities.

(3) Non-IFRS measure — see discussion under the heading "Non-IFRS Financial Measures".

Bank Loan

As at December 31, 2016, the Company had a C$190,000,000 credit facility in place comprised of a C$100,000,000 revolving credit facility and a C$90,000,000 term facility. All advances under the credit facility and term facility are required to be approved by the lender. Under the revolving credit facility, C$50,000,000 is firm committed, to which the Company repaid C$9,957,807 of the principal during the year ended December 31, 2016. With respect to the term facility, it was comprised of Tranche A to a maximum of C$10,000,000 which could be used for drilling, completion and acquisition of surface equipment and Tranche B to a maximum of C$90,000,000 for future development costs. The Tranche A term facility expired during the year ended December 31, 2016 and the Tranche B remains available, with any advances subject to the approval by the lender. No amounts were outstanding under the term facility as at December 31, 2016 and 2015. In addition, the Company maintains C$558,000 (December 31, 2015: C$264,000) of letters of credit outstanding as at December 31, 2016 for transportation service.

All amounts outstanding under the revolving credit facility bear interest at the Canadian Dealer Offered Rate ("CDOR" means the arithmetic average of the yields to maturity for bankers' acceptances quoted on the Reuter's Canadian Deposit Offered Rate) plus a margin of 5.5% per annum and the term facility bears interest at 7% fixed per annum. As at December 31, 2016, the applicable effective interest rate on the revolving credit facility was 6.5%. The facility is secured by a C$400 million debenture with a floating charge over all present and after-acquired real and personal property.

All principal amounts outstanding under the facility are due on maturity being October 20, 2018. The available level of credit is subject to a semi-annual review by the lender to be completed by March 1 and September 1 of any given year. The credit facility and the borrowing base may be adjusted by the lender for changes in reserves, commodity prices and other factors. A decrease in the borrowing base could result in a reduction of the credit facility. If the credit facility is reduced, the Company has 60 days to pay any shortfall irrespective of the maturity date of the credit facility. The Company is required to meet certain financial based covenants under the terms of this facility as follows: 1) maintain a working capital ratio (the ratio of current assets to current liabilities) of greater than 1 to 1; 2) maintain a debt coverage ratio (the ratio of total debt to net operating cash flow as defined below) of less than 3 to 1 commencing January 1, 2016 (required threshold rate was 4 to 1 before January 1, 2016); 3) maintain an interest coverage ratio (the ratio of net operating cash flow to interest expense for all debt of the Company) of greater than 4 to 1; and 4) maintain an adjusted present value ratio (ratio of total adjusted present value (reserve based) as defined below to total debt) of greater than 1.7 to 1 commencing January 1, 2016 (required threshold rate was 2 to 1 before January 1, 2016). In addition, the Company cannot exceed a maximum of general and administrative expenses equal to 11% of net operating cash flows unless funded through advances of equity (the "**G&A cap**"). Under the credit facility agreement "net operating cash flow" is defined, on a cash basis, as the Company's gross cash receipts from the sale of production volumes and all other cash receipts from whatever source less cash operating costs and royalty expenses paid; "total debt" is defined as the consolidated debt of the Company and including any current asset or liability; and "adjusted present value (reserve based)" is defined as the sum of the Proved Developed Producing Reserves (PDP) present value (discounted at ten percent (10%)) plus the Proved Developed Non Producing Reserves (PDNP) present value (discounted at ten percent (10%)) plus the Proved Undeveloped Reserves (PUD) present value (discounted at ten percent (10%)) based on the most recently received independent reserve report. As at December 31, 2016 and December 31, 2015, the Company was in compliance with all covenants and terms under the facility. All terms included in the covenants and terms described above are as defined by the lender. See further discussion in note 24(b) in the financial statements.

Shareholders' Equity

As at December 31, 2015, there were 2,000 of Class A common shares, 23,477,017 of Class B common shares and 183,016,209 of Class C common shares outstanding, respectively. On April 29, 2016, Class A Shares were re-designated as Common Shares, all Class B and Class C Shares were converted into Common Shares on a 1:1 basis, and a share split of the issued and outstanding shares of the Company on an every one Common Share for two Common Shares basis. As a result, all share and per share data has been retrospectively presented to take into account the share split. As at December 31, 2016, there were 208,706,520 common shares outstanding. The Company successfully listed on the Stock Exchange of Hong Kong on March 10, 2017 with the issuance of 69,580,000 new shares at a price of HK$3.16 per share, resulting in the gross proceeds of HK$220 million (approximately C$38 million). There were 278,286,520 common shares outstanding as at the date of this MD&A.

Liquidity

During the years ended December 31, 2016 and 2015, the Company's principal sources of liquidity and capital resources were generally cash flows from operating activities and financing activities. The Company's principal use of liquidity and capital resources were mainly for the drilling of new production wells and purchase of undeveloped land. The following table shows the Company's cash flows during the years ended December 31, 2016 and 2015:

	Year ended December 31,		
	2016 C$'000	2015 C$'000	Change %
Cash flows			
Net cash generated from operating activities	**7,955**	5,363	48.3%
Net cash (used in)/generated from investing activities	**(312)**	(5,374)	–94.2%
Net cash (used in)/generated from financing activities	**(9,090)**	449	–2,124.5%
Net increase/(decrease) in cash and cash equivalents	**(1,447)**	438	–430.4%
Cash and cash equivalents at the beginning of the year	**5,413**	4,975	8.8%
Cash and cash equivalents at the end of the year	**3,966**	5,413	–26.7%

Net Cash Generated from Operating Activities

The Company's cash flows generated from operating activities primarily consisted of net earnings, the effect of changes in working capital such as accounts receivable, prepaid expense, account payable and accrued liabilities and adjustment for non-cash income and expenses.

The Company had generated net cash from operating activities of C$7,954,677 for the year ended December 31, 2016, which was attributable to (i) loss before income tax of C$2,285,804; and (ii) adjustment for certain non-operating expenses including depletion and depreciation of C$6,854,737.

The Company had net cash generated from operating activities of C$5,363,600 for the year ended December 31, 2015, which was attributable to (i) loss before income tax of C$2,485,093; and (ii) adjustment for certain non-operating expenses including depletion and depreciation of C$5,562,228.

Net Cash (Used in)/generated from Investing Activities

The major cash outflows from investing activities during the years ended December 31, 2016 and 2015 were mainly due to the Company's capital expenditures on property, plant and equipment and Exploration and Evaluation ("**E&E**") assets.

Net cash used in investing activities for the year ended December 31, 2016 was C$311,817. The amount was mainly attributable to recovery of expenditure on property, plant and equipment of C$1,100,000, offset by the expenditures on E&E assets of C$1,219,486 and property, plant and equipment of C$192,331.

Net cash used in investing activities for the year ended December 31, 2015 was C$5,374,055. The amount was mainly attributable to the expenditure on E&E assets of C$4,309,162.

Net Cash Generated from/(used in) Financing Activities

The Company's financing activities during the years ended December 31, 2016 and 2015 mainly comprised of proceeds from share issuance, proceeds from bank loan, repurchase of shares and repayment of loans.

Net cash used in financing activities was C$9,090,179 for the year ended December 31, 2016. The amount was mainly attributable to the repayment of bank loans of C$9,957,807.

Net cash generated from financing activities was C$449,018 for the year ended December 31, 2015. The amount was mainly attributable to the net proceeds from share issuance of C$1,930,000, which was offset by net repayment of bank loans of C$1,541,345.

Capital Resources

The Company operates in a capital intensive industry. The Company's liquidity requirements arise principally from the need for financing the expansion of its new drillings and operations, exploration activities and acquisition of land leases and PNG licenses. The Company's principal sources of funds have been proceeds from bank borrowings, equity financings, and cash generated from operations. The Company's liquidity primarily depends on its ability to generate cash flow from its operations and to obtain external financing to meet its debt obligations as they become due, as well as the Company's future operating and capital expenditure requirements.

As at December 31, 2016, the Company had bank borrowings of C$35.6 million and working capital surplus of C$5.1 million. The Company's cash balance at December 31, 2016 was C$4.0 million.

The Company has a committed credit facility of C$50.0 million, which was drawn down to C$35.6 million with an unutilized portion of C$14.4 million. On March 10, 2017, the Company successfully listed on the Stock Exchange of Hong Kong and the Company issued 69,580,000 new shares at a price of HK$3.16 per share (C$0.54 per share), resulting in gross proceeds of HK$220 million (approximately C$38 million). The costs associated with the issuance of new equity are estimated at approximately C$3 million and therefore the net amount to be recorded as share capital is estimated to be approximately C$35 million. The Company plans to drill 3 wells in 2017 with estimated capital expenditure of C$18 million. Management believes that its forecast operating cash flows are sufficient to cover the next twelve months of the Company's operations including its planned capital expenditures and current debt repayments.

Capital Expenditures

The Company's capital expenditures primarily consisted of the addition of exploration and evaluation assets and property, plant and equipment to increase the Company's operating efficiency execution capacity. During the years ended December 31, 2016 and 2015, the Company's capital expenditures were principally funded by cash flows generated from the operations as well as its equity issues.

The following table shows the Company's capital expenditures during the years ended December 31, 2015 and 2016:

	Year ended December 31, 2016 C$'000	Year ended December 31, 2015 C$'000
PPE		
Well site	**267**	210
Facilities and equipment	**—**	—
Office	**13**	7
Sub-total	**280**	217
E&E Assets		
Undeveloped lands	**120**	1,986
General and administrative costs capitalized	**444**	799
Unevaluated drilling and completion costs	**392**	1,092
Unevaluated seismic data	**—**	—
Sub-total	**956**	3,877
Change in non-cash working capital:	**176**	1,280
Total	**1,412**	5,374

The capital expenditures (include change in non-cash working capital) decreased by C$3,962,238 to C$1,411,817 compared to C$5,374,055 for the same period of 2015. For the three months ended December 31, 2016, capital expenditures (include change in non-cash working capital) were $556,976, representing 39.5% of that in 2016.

For the year ended December 31, 2016, the capital expenditure (including change in non-cash working capital) on PPE were mainly attributed to workover costs of C$267,364 on a well site in the Alberta Foothills, and an increase in E&E assets due to: (i) purchase of land of C$120,384 in the Alberta Foothills; (ii) capitalized G&A costs of C$444,455; and (iii) an increase in unevaluated drilling and completion costs of C$391,779 resulting from well site construction in the Alberta Foothills.

For the year ended December 31, 2015, the capital expenditures (include change in non-cash working capital) on PPE were mainly attributed to the installation of equipment of C$210,343 on the well site in Peace River, and an increase in E&E assets due to: (i) purchase of land of C$1,985,903 in Alberta Foothills; and (ii) an increase in unevaluated drilling and completion costs of C$1,092,539 resulted from well site construction in the Alberta Foothills.

Decommissioning Liabilities

During the years ended December 31, 2016 and 2015, the decommissioning obligations were estimated based on the Company's net ownership interest in petroleum and natural gas assets including well sites, gathering systems and facilities, the estimated costs to abandon and reclaim the petroleum and natural gas assets and the estimated timing of the costs to be incurred in future periods.

The following reconciles the Company's decommissioning liabilities:

	December 31, 2016 C$'000	December 31, 2015 C$'000
Balance, beginning of the period	**1,765**	1,617
Change in estimate	**(84)**	128
Accretion expense	**27**	20
Balance, end of the period	**1,708**	1,765

The Company's decommissioning liabilities decreased by C$56,943 to C$1,708,047 compared to C$1,764,990 for the same period of 2015. The decrease was mainly due to the increase in the discount rate offset by a decrease the remaining life of wells.

The Company's Liability Management Rating ("**LMR**") with the Alberta Energy Regulator was 53.99 at April 1, 2017. The LMR reflects the results of a comparison of the Corporation's deemed assets to its deemed liabilities and is updated monthly. An LMR rating less than 1.0 would require the Company to pay a deposit to the AER.

Related Party Transactions

In January 2016, the Company issued 1,687,962 (pre-stock split 843,981) Class C common shares at a price of $1.00 (pre-stock split $2.00) per share to individual investors for proceeds totaling $1,687,962, among which $552,037 of cash proceeds from the new shares issuing was transferred from JLHY (collected by JLHY from the individual shareholders) to the Company in December 2015 (see note 14 in the financial statement); the payment of the remaining $1,135,925 of the new shares issuing proceeds was received during the year ended December 31, 2016.

The Company settled $156,283 of withholding tax on behalf of JLHY in 2015 relating to repurchase of common shares, this amount is included in amount due from related party and remains outstanding as at December 31, 2016 and December 31, 2015. This amount was collected in February 2017.

Off-Balance Sheet Transactions

Persta was not involved in any off-balance sheet transactions that would result in a material change to its financial position, performance or results from operations.

Commitments

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business. In October 2011, the Company entered into a lease for a term starting October 2011 to December 2017. The average cost of the lease is approximately C$46,875 per month. Office premise lease costs include an estimate of the Company's share of operating costs for its office premises for the duration of the lease term. The Company entered into a lease agreement for a compressor and the lease term is from September 8, 2012 to September 7, 2017 requiring monthly lease payments of C$12,650. The Company entered into a firm service transportation agreement commencing November 1, 2013 to October 31, 2026 (the firm service fee varies and subject to review by the counter-party on an annual basis). The amounts presented below for the transportation service commitment fee is based on management's best estimate.

	Total	**Less than 1 year**	**1–3 years**	**4–5 years**	**After 5 years**
	C$'000	C$'000	C$'000	C$'000	C$'000
As at December 31, 2016					
Office premise lease	563	563	—	—	—
Lease of compressors	114	114	—	—	—
Transportation commitment[1]	52,848	1,176	10,648	13,241	27,783
Total contractual obligations	53,525	1,853	10,648	13,241	27,783

Note:

(1) As the average gas transportation demand is expected to be 32.4 MMcf/d and 38.9 MMcf/d in 2017 and 2018 respectively based on Proved plus Probable Reserves, and 45.4 MMcf/d in 2019 based on Proved plus Probable Reserves and Best Estimate Unrisked Contingent Resources under the Company's three-year development plan, the Company have been assigned FT-R service in NGTL for 18.6 MMcf/d, 65.0 MMcf/d on average for 2017 and 2018 respectively and 110.0 MMcf/d for 2019. Based on management's best estimate, the transportation service commitment fee in respect of the excess assigned FT-R service in NGTL amounts to nil, C$1.5 million and C$3.7 million for 2017, 2018 and 2019, respectively. Based on its experience that the Company has been able to arrange for transfers of FT-R service available from other producers to accommodate its production schedule, the Company is of the view that if it does not have sufficient production to fill up the assigned transportation capacity, the Company will be able to transfer these excess capacities to other third-party producers in the NGTL System.

The Company also entered into the following fixed price physical commodity contracts to forward sell natural gas during the year ended December 31, 2016:

Commodity	Term	Quantity	Price
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$2.80 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$2.82 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$2.63 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$2.54 per GJ
Natural gas	January 1, 2017 to December 31, 2017	4,400 GJ/day	$2.51 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$3.00 per GJ
Natural gas	January 1, 2017 to December 31, 2017	2,000 GJ/day	$2.97 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$3.03 per GJ
Natural gas	January 1, 2017 to December 31, 2017	2,000 GJ/day	$2.94 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$3.10 per GJ
Natural gas	January 1, 2018 to December 31, 2018	1,000 GJ/day	$2.79 per GJ
Natural gas	January 1, 2018 to December 31, 2018	1,000 GJ/day	$2.66 per GJ
Natural gas	January 1, 2018 to December 31, 2018	6,400 GJ/day	$2.64 per GJ

Non-IFRS Financial Measures

This MD&A or documents referred to in this MD&A make reference to the terms "operating netback" and "adjusted EBITDA" are not recognized measures under IFRS, and do not have a standardized meaning prescribed by IFRS. Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Management considers operating netback an important measure to evaluate the Company's operational performance, as it demonstrates its field level profitability relative to current commodity prices. Management uses adjusted EBITDA to measure the Company's efficiency and its ability to generate the cash necessary to fund a portion of its future growth expenditures or to repay debt. Investors are cautioned that the non-IFRS measures should not be construed as an alternative to net income determined in accordance with IFRS as an indication of the Company's performance. The terms "total debt", and "adjusted present value (reserve based)" are not used by management in measuring performance but are used in the financial covenants under the Company's credit facility. Under the Company's credit facility, total debt is defined as the consolidated debt of the Company and including any current asset or liability and adjusted present value (reserve based) is defined as the sum of the PDP present value plus the PDNP present value plus the PUD present value based on the most recently delivered Competent Person's Report.

Operating netback

	Year ended December 31,		
	2016 **C$'000**	2015 C$'000	Change %
Revenue from crude oil and natural gas sales	**23,706**	16,080	47.4%
Royalties	**(1,780)**	(1,072)	66.0%
Operating costs	**(6,327)**	(3,636)	74.0%
Operating netback	**15,599**	11,372	37.2%

Adjusted EBITDA

	Year ended December 31,		
	2016 C$'000	2015 C$'000	Change %
Revenue from crude oil and natural gas sales	**23,706**	16,080	47.4%
Royalties	**(1,780)**	(1,072)	66.0%
Operating costs	**(6,327)**	(3,636)	74.0%
General and administrative costs	**(2,712)**	(2,330)	16.4%
Other income	**11**	—	100.0%
Adjusted EBITDA	**12,898**	9,042	42.7%

Total debt

	Year ended December 31,		
	2016 C$'000	2015 C$'000	Change %
Bank loan	**35,622**	45,580	–21.9%
Current assets	**(8,579)**	(9,170)	–6.4%
Current liabilities	**3,457**	2,247	53.9%
Net debt	**30,500**	38,657	–21.1%

Adjusted present value (reserve based)

	Year ended December 31,		
	2016 C$'000	2015 C$'000	Change %
PDP present value[1]	**48,204**	49,209	13.2%
PNDP present value[1]	**—**	—	—
PUD present value[1]	**44,584**	37,276	23.7%
Adjusted EBITDA	**92,788**	86,485	17.75%

Note:

(1) The present value are discounted at ten percent (10%) after tax.

Application of Critical Accounting Estimates

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying the Company's IFRS accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

(i) Identification of CGUs

Persta's assets are aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGUs have been determined based on similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risks. By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Company's assets in future periods.

(ii) Identification of impairment indicators

IFRS requires Persta to assess, at each reporting date, whether there are any indicators that its assets may be impaired. Persta is required to consider information from both external sources (such as a negative downturn in commodity prices and significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in reserves, significant adverse effect on the financial and operational performance of a CGU and evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Company's assets in future periods.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the year ended December 31, 2016 that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year.

(i) Reserves

Reported recoverable quantities of proved and probable reserves requires estimation regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of the reservoir, and the anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets and liabilities due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Persta's petroleum and natural gas interests are evaluated by independent reserve engineers at least annually.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. Persta's oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook*.

(ii) Decommissioning obligations

The Company estimates future remediation costs of production facilities, well sites and gathering systems at different stages of development and construction of assets. In most instances, removal of assets occurs many years into the future. This requires an estimate regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash outflows.

(iii) Impairment of non-financial assets

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding future cash flows taking into account key assumptions including future petroleum and natural gas prices, expected forecasted production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amount of the Company's assets, and impairment charges and reversals will affect income or loss.

(iv) Taxes

Persta files corporate income tax, goods and service tax and other tax returns with Alberta provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The Company has no such disputes or differences of opinion at the current time.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted funds from operations. During the years ended December 31, 2016 and 2015, the Company has not recorded any deferred tax assets or liabilities due to the uncertainty of future taxable profits.

Future Changes in Accounting Policies

The following pronouncements from the IASB will become effective for financial reporting periods beginning on or after January 1, 2016 and have not yet been adopted by the Company. These new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application.

IFRS 9 — Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9, "Financial Instruments" to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 is effective for years beginning on or after January 1, 2018. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the financial statements. Expected impacts of the new requirements on the Company's financial statements are as follows:

(a) *Classification and measurement*

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("**FVTPL**") and (3) fair value through other comprehensive income ("**FVTOCI**") as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognized in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognized in profit or loss. Gains, losses and impairments on that security will be recognized in other comprehensive income without recycling.

Based on the preliminary assessment, the Company expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

Available-for-sale investments in equity securities are investments which the Company may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to IFRS 9. The Company has no financial assets currently classified as "available-for-sale" and therefore this new requirement will not have any impact on the Company on adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognized in other comprehensive income (without reclassification to profit or loss). The Company currently does not have any financial liabilities designated at FVTPL and therefore this new requirement is not expected to have any impact on the Company on adoption of IFRS 9.

(b) *Impairment*

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, an entity is required to recognize and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Company's trade receivables and other financial assets. Based on the preliminary assessment, this new requirement is not expected to have any material impact on the Company on adoption of IFRS 9.

(c) *Hedge accounting*

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Company has no hedges under IAS 39 and therefore this may not have any impact on the Company on adoption of IFRS 9.

IFRS 15 — Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts", IFRIC 13 "Customer Loyalty Programmes" and related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It also includes guidance on when to capitalize costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or applying a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the financial statements. Based on the preliminary assessment, the new requirements are not expected to have any material impact on the Company on adoption of IFRS 15.

IFRS 16 — Leases

In January 2016, the IASB issued IFRS 16, "Leases", which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognized assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019. It replaces IAS 17 "Leases" and the related interpretations including IFRIC 4 "Determining whether an arrangement contains a lease".

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognized on a systematic basis over the lease term.

IFRS 16 will primarily affect the Company's accounting as a lessee of leases for office premise, compressors which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss and other comprehensive income over the period of the lease.

As disclosed in the "COMMITMENTS" section, as at December 31, 2016 the Company's future minimum lease payments under non-cancelable operating leases amount to C$562,496 and C$113,850 for office premise and compressors respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognized as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Company will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

The Company is considering whether to adopt IFRS 16 before its effective date of January 1, 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being January 1, 2018.

Amendments to IAS 7 — Statement of cash flows: Disclosure Initiative

On January 7, 2016, the IASB issued the amendments to IAS 7, "*Statement of cash flows: Disclosure Initiative*". The amendments apply prospectively for annual reporting periods beginning on or after January 1, 2017. Earlier application is permitted. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual reporting period beginning on January 1, 2017. The Company is currently evaluating the impact of adopting the amendments to IAS 7 on the financial statements.

Amendments to IAS 12 — Recognition of Deferred Tax Assets for Unrealized Losses

On January 19, 2016 the IASB issued the amendments to IAS 12, "Recognition of Deferred Tax Assets for Unrealized Losses". The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2017. Earlier application is permitted. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual reporting period beginning on January 1, 2017. The Company is currently evaluating the impact of adopting the amendments to IAS 12 on the financial statements.

Amendments to IFRS 2 — Classification and Measurement of Share-based Payment Transactions

On June 20, 2016, the IASB issued the amendments to IFRS 2, "Classification and Measurement of Sharebased Payment Transactions", clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual reporting periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual reporting period beginning on January 1, 2018. The Company is currently evaluating the impact of adopting the amendments to IFRS 2 on the financial statements.

The Company does not plan to early adopt the above new standards or amendments. With respect to IFRSs 9, 15 and 16 and amendments to IASs 7 and 12 and IFRS 2, given the Company has not completed its assessment of their full impact on the Company, their possible impact on the Company's results of operations and financial position has not been quantified.

Disclosure controls and procedures

Disclosure controls and procedures have been designed to ensure that information to be disclosed by Persta is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures. The Chief Executive Officer and Interim Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures ("**DC&P**") to provide reasonable assurance that (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Interim Chief Financial Officer by others, particularly during the period in which the annual and interim filings are prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. All control systems by their nature have inherent limitations and, therefore, the Company's disclosure controls and procedures are believed to provide reasonable, but not absolute, assurance that the objectives of the control system are met.

Internal control over financial reporting

The Corporation's Chief Executive Officer and Interim Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("**ICFR**") to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met. There were no changes made to Persta's internal controls over financial reporting during the period beginning on January 1, 2016 and ending on December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Management has concluded that Persta's internal control over financial reporting was effective as of December 31, 2016. This assessment was based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Risk Factors and Risk Management

The liquidity position of Persta would be improved by a material increase in future commodity prices and an increase in proved and probable reserves based on the Company's drilling program. The Company is involved in regular discussions with its lender and is continually pursuing other financing opportunities such as alternative debt arrangements, joint venture opportunities, property acquisitions or divestitures and other recapitalization opportunities and is taking steps to manage its spending and leverage including the implementation of cost reduction and capital management initiatives. If the Company is unable to obtain additional financing or come to some other arrangement with its lender, it will be required to curtail certain capital expenditure activities and/or possibly be required to liquidate certain assets. Ongoing exploration and development of Persta's properties will require substantial additional capital investment. Failure to secure additional financing, and/or secure other funds from asset sales, would result in a delay or postponement of development of these prospective properties. There can be no assurance that additional financing will be available or that, if available, will be on terms favourable or acceptable to Persta.

Persta monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations, royalty regime or taxation. In addition, Persta maintains a level of liability, business interruption and property insurance which is believed to be adequate for the Company's size and activities, but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims. See "Forward-Looking Information" in this MD&A and "Risk Factors" in Persta's Prospectus for additional information.

Impact of New Environmental Regulations

The oil and gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

The use of fracture stimulations has been ongoing safely in an environmentally responsible manner in western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells there is increased communication between the oil and natural gas industry and a wider variety of stakeholders regarding the responsible use of this technology. This increased attention to fracture stimulations may result in increased regulation or changes of law which may make the conduct of the Company's business more expensive or prevent the Company from conducting its business as currently conducted. Persta focuses on conducting transparent, safe and responsible operations in the communities in which its people live and work.

Selected Abbreviations

In this MD&A, the abbreviations set forth below have the following meanings:

Crude oil and natural gas liquids

Bbls/d or Bbl/d	barrels of oil per day
Bbls or Bbl	barrels of oil or barrel of oil
Boe	barrel of oil equivalent
Boe/d	barrel of oil equivalent per day
C$/Bbl	Canadian dollars per barrel of oil
C$/Boe	Canadian dollars per barrel of oil equivalent
Mbbls or Mbbl	thousand barrels
Mboe	thousand barrels of oil equivalent
Mbpd	thousand barrels per day
MMbbls	million barrels of oil
MMbbls/d	million barrels of oil per day
MMboe	million barrels of oil equivalent
MMboe/d	million barrels of oil equivalent per day
US$/Bbl	US dollars per barrel of oil

Natural gas

Bcf	billion cubic feet
Bcm	billion cubic meters
Cf	cubic feet
C$/Mcf	Canadian dollars per thousand cubic feet
C$/MMbtu	Canadian dollars per million British thermal units
GJ	gigajoule
GJ/d	gigajoules per day
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
Mcfe	thousand cubic feet of gas equivalent
Mcfe/d	thousand cubic feet of gas equivalent per day
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
MMcfe	million cubic feet of gas equivalent
MMcfe/d	million cubic feet of gas equivalent per day
tcf	trillion cubic feet
US$/MMbtu	US dollars per million British thermal units

Other

km	kilometres
km^2	square kilometres
m	meters
m^3	cubic meters
mg	milligrams
°C	degrees Celsius

Conversion Factors — Imperial to Metric

Bbl = 0.1590 cubic metres (m^3)

Mcf = 0.0283 cubic metres (10^3m^3)

acres = 0.4047 hectares (ha)

Btu = 1054.615 joules (J)

feet (ft) = 0.3048 metres (m)

miles (mi) = 1.6093 kilometres (km)

pounds (Lb) = 0.4536 kilograms (kg)

Boe Conversions — Per barrel of oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent (6:1). Barrel of oil equivalents (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, as the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended December 31, 2016.

Corporate Governance Practices

The Company's shares have been listed on the Stock Exchange since March 10, 2017. The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code. Save as disclosed herein, the Company has complied with the code provisions as set out in the CG Code during the Period from the Listing Date to the date of this annual report (the "**Period**"). The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

As the Company was not yet listed on the Main Board of the Stock Exchange until the Listing Date, the CG Code was not applicable to the Company during the period under review, to the extent applicable. However, the Board believes that the Company has fully complied with the CG Code since the Listing Date.

The Board

Responsibilities

The Board is responsible for the overall leadership of the Company, oversees the Company's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Company to the senior management of the Company. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the audit and risk committee (the "**Audit and Risk Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**") (together, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

Directors' and Senior Management's Liability Insurance and Indemnity

The Company has arranged appropriate liability insurance to indemnify the Company's Directors and senior management for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

Board Composition

The Board currently comprises one executive Director, namely Mr. Le Bo, one non-executive Director, namely Mr. Yuan Jing and three independent non-executive Directors, namely Mr. Richard Dale Orman, Mr. Bryan Daniel Pinney and Mr. Peter David Robertson.

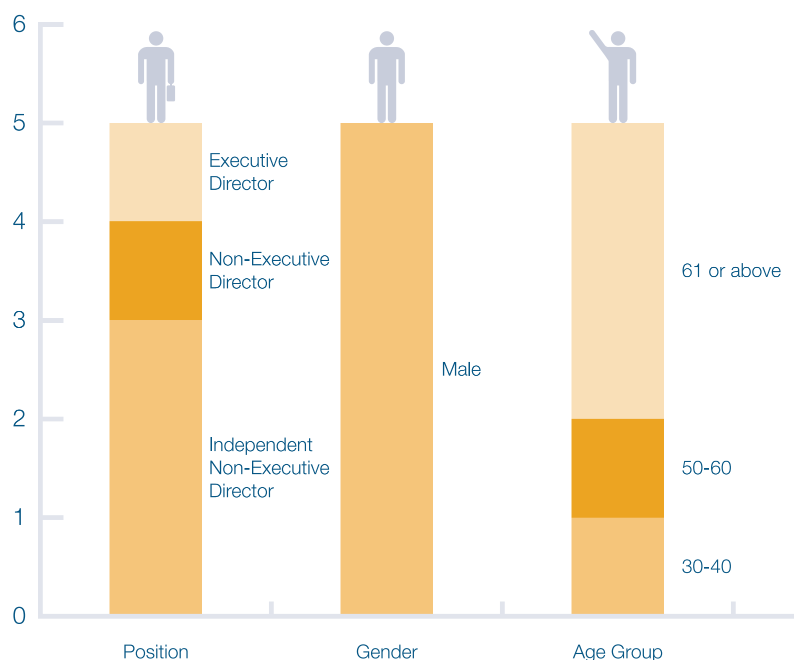
Since the Listing Date and up to the date of this annual report, the Board at all times met the requirements of the Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Among the three independent non-executive Directors, Mr. Bryan Daniel Pinney has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Board Diversity Policy

Pursuant to the code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The policy specifies that in designing the composition of the Board, Board diversity shall be considered from a number of aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. The appointment of Directors will be based on meritocracy, and candidates will be evaluated against objective criteria, having due regard for the benefits of diversity of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, culture, educational background, professional experience, knowledge and skills.

The composition of the Board will be disclosed in the Corporate Governance Report every year and the Nomination Committee will supervise the implementation of this policy. The Nomination Committee will review the effectiveness of this policy, as appropriate discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this annual report, the diversity of the Board is illustrated as below. Further details on the biographies and experience of the Directors are set out on page 6 to page 9 of this annual report.



The Nomination Committee has reviewed the membership, structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable the Company to maintain a high standard of operation.

Confirmation of Independence by the Independent Non-executive Directors

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

None of the Directors has any personal relationship (including financial, business, family or other material/relevant relationship) with any other Director.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive directors are invited to serve on the Audit and Risk Committee, the Remuneration Committee and the Nomination Committee.

In regards to the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

Induction and Continuous Professional Development

Pursuant to code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Each newly appointed Director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under relevant statues, laws, rules and regulations.

During the Period, each of the Directors, namely Mr. Le Bo, Mr. Yuan Jing, Mr. Richard Dale Orman, Mr. Bryan Daniel Pinney and Mr. Peter David Robertson, received from the Company from time to time the updates on laws, rules and regulations which might be relevant to their roles, duties and functions as director of a listed company.

Prior to the listing of the Company, each of the aforesaid Directors have attended the training courses conducted by the legal adviser of the Company. The content of such training related to the duties of directors and on-going obligations of listed companies.

All Directors, namely Mr. Le Bo, Mr. Yuan Jing, Mr. Richard Dale Orman, Mr. Bryan Daniel Pinney and Mr. Peter David Robertson, have been updated with the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the current organization structure of the Company, Mr. Le Bo is the Chairman of the Board and the Chief Executive Officer of the Company. Although this deviates from the practice under code provision A.2.1 of the CG Code, as Mr. Le Bo has considerable experience in the enterprise operation and management of the Company, the Board believes that it is in the best interest of the Company and the shareholders of the Company as a whole to continue to have Mr. Le Bo as Chairman of the Board so that the Board can benefit from his experience and his capability in leading the Board in the long term development of the Company. From a corporate governance point of view, the decisions of the Board are made collectively by way of voting and therefore the Chairman should not be able to monopolize the decision making of the Board. The Board considers that the balance of power between the Board and the management of the Company can still be maintained under the current structure. The Board shall review the structure from time to time to ensure appropriate action be taken should the need arise.

Appointment and Re-Election of Directors

The executive Director has entered into a service contract with the Company for a term of three years commencing from February 26, 2016.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from February 26, 2016.

None of the Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

In accordance with the Company's articles of incorporation, as amended and restated and By-Laws, the Directors are subject to re-election at every annual general meeting. Shareholders of the Company entitled to vote at the annual general meeting for the election of Directors will elect a Board consisting of at least the minimum number of Directors set under the articles of the Company and all the Directors shall cease to hold office immediately before such election, but are eligible for re-election at such meeting.

The procedures and process of appointment, re-election and removal of directors are set out in the Company's articles of incorporation, as amended and restated, and By-Laws. The Nomination Committee is responsible for reviewing the Board composition, monitoring and make recommendations to the Board on the appointment, re-election and succession planning of Directors, in particular the Chairman and the Chief Executive Officer.

Majority Voting Policy

Given the preclusion of the use of two-way voting for the election of directors under the ABCA and Canadian securities laws, the Company has adopted a majority voting policy, pursuant to which each Director must be elected individually (rather than as a slate) by a majority (50% plus one vote) of the votes cast (i.e. more votes "for" than votes "withheld") with respect to his or her election. If a Director nominee is not elected by at least a majority of the votes cast with respect to his or her election, he or she must immediately tender his or her resignation to the Board. The Board must, within 90 days, determine whether or not to accept the resignation and issue an announcement in relation to the Board's decision in that regard. Notwithstanding the aforesaid, a director is validly elected if he or she has any votes "for" as, under Canadian corporate and securities law, votes can only be "withheld", not voted "against". A "withheld" vote will be considered to be an "against" vote for the purpose of appointment of Directors on the application of the majority voting policy.

Board Meetings

The Company adopts the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the company secretary with copies circulated to all Directors for information and records.

Minutes of the board meetings and committee meetings are recorded in sufficient detail the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each board meeting and committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the board meetings are open for inspection by Directors.

Since the Listing Date and up to the date of this annual report, 2 board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	**Attended/Eligible to attend**
Mr. Le Bo *(Chairman and CEO)*	2/2
Mr. Yuan Jing	0/2
Mr. Richard Dale Orman	2/2
Mr. Bryan Daniel Pinney	2/2
Mr. Peter David Robertson	2/2

Model Code for Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made of all the Directors and each of the Directors has confirmed that he has complied with the Model Code since the Listing Date and up to the date of this annual report.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Company are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of Directors which include:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and

(e) to review and ensure the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the Corporate Governance Report to be contained in the Company's annual reports.

Board Committees

Nomination Committee

The Nomination Committee currently comprises three members, namely Mr. Le Bo (chairman), Mr. Bryan Daniel Pinney and Mr. Peter David Robertson, the majority of them are independent non-executive Directors.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually and make recommendations on any changes to the Board to complement the Company's corporate strategy, to make recommendation to the Board regarding candidates to fill vacancies on the Board and/or in the management, and to assess the independence of the independent non-executive Directors.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. Their written terms of reference are available on the websites of the Stock Exchange and the Company.

Due to the fact that the Company was listed on March 10, 2017, no Nomination Committee meeting was held during the year ended December 31, 2016.

Since the Listing Date and up to the date of this annual report, one meeting of the Nomination Committee was held on and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Le Bo *(Chairman)*	1/1
Mr. Bryan Daniel Pinney	1/1
Mr. Peter David Robertson	1/1

The Nomination Committee assessed the independence of independent non-executive Directors, considered the re-appointment of the retiring Directors, reviewed the time commitment required from the non-executive Director and fulfilled duties as required aforesaid.

Procedure for Nomination of Directors

1. When there is a vacancy on the Board, the Nomination Committee evaluates the balance of skills, knowledge, experience and characteristics of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive Director).

2. Prepare a description of the role and capabilities required for the particular vacancy.

3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.

4. Arrange interview(s) with each candidate for the Nomination Committee to evaluate whether he meets the criteria adopted by the Nomination Committee for nomination of directors. One or more members of the Nomination Committee will attend the interview.

5. Conduct verification on information provided by the candidate.

6. Convene a Nomination Committee meeting to discuss and vote on which candidate to nominate to the Board.

7. Make recommendations to the Board on the candidate(s) for directorship and/or for senior management.

8. Convene a Board meeting to discuss and vote on which candidate to appoint to the Board.

Criteria for Nomination of Directors

1. Common criteria for all Directors

(a) Character and integrity.

(b) The willingness to assume board fiduciary responsibility.

(c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs.

(d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company.

(e) Significant business or public experience relevant and beneficial to the Board and the Company.

(f) Breadth of knowledge about issues affecting the Company.

(g) Ability to objectively analyse complex business problems and exercise sound business judgement.

(h) Ability and willingness to contribute special competencies to Board activities.

(i) Fit with the Company's culture.

2. Criteria applicable to non-executive Directors/independent non-executive Directors

(a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings.

(b) Accomplishments of the candidate in his/her field.

(c) Outstanding professional and personal reputation.

(d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Richard Dale Orman (chairman), Mr. Le Bo and Mr. Bryan Daniel Pinney, the majority of them are independent non-executive Directors.

The Remuneration Committee has adopted the second model described in paragraph B.1.2(c) under Appendix 14 of the Listing Rules (i.e. make recommendations to the Board on the remuneration packages of individual executive Directors and senior management members).

The primary duties of the Remuneration Committee are to recommend the Board on the remuneration policy and structure for the Directors and management and on the establishment of a formal and transparent procedure for developing remuneration policy, to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives, and to make recommendations to the Board on the remuneration packages of the executive Directors and management.

Their written terms of reference are available on the websites of the Stock Exchange and the Company.

Due to the fact that the Company was listed on March 10, 2017, no Remuneration Committee meeting was held during the year ended December 31, 2016.

Since the Listing Date and up to the date of this annual report, one meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Richard Dale Orman *(Chairman)*	1/1
Mr. Le Bo	1/1
Mr. Bryan Daniel Pinney	1/1

The Remuneration Committee discussed and reviewed the remuneration policy for Directors and senior management of the Company, considered salaries paid by comparable companies, time commitment and responsibilities and employment conditions else where in the Company, made recommendations to the Board on the remuneration packages of individual executive Directors and senior management and fulfilled duties as required aforesaid.

Details of the remuneration by band of the 4 members of the senior management of the Company, whose biographies are set out on pages 9 to 11 of this annual report, for the year ended December 31, 2016 are set out below:

Remuneration band	Number of individual
Hong Kong dollars	
Nil–1,000,000	1
1,000,001–1,500,000	2
1,500,001–2,000,000	1
2,000,001–2,500,000	—
2,500,001–3,000,000	—
3,500,001–4,000,000	—
4,500,001–5,000,000	—

Phantom Unit Plan

On May 2, 2016, the Board approved, effective upon the Company's Listing on the Stock Exchange of Hong Kong, a phantom unit plan (the "**Phantom Unit Plan**") for the benefit of the Company's independent non-executive Directors (the "**Eligible Directors**") to encourage a sense of ownership and to enhance the Company's ability to retain key personnel and reward significant performance achievements.

Under the Phantom Unit Plan, a percentage (the "**Designated Percentage**") of the Eligible Director's fees (the "**Fee**"), as determined by the Board, will be paid in phantom units issued thereunder (the "**Phantom Units**") as part of the Company's compensation plan for the Eligible Directors. Each Eligible Director shall agree in writing prior to the commencement of each twelve-month period commencing on January 1 and ending on December 31 (the "**Fee Period**") to receive the applicable Designated Percentage of Fees in the form of Phantom Units. The first Fee Period will commence on the Listing Date and shall end on December 31 of that calendar year.

On each date in which Phantom Units are to be allotted (the "**Unit Allotment Date**") to an Eligible Director participating in the Phantom Unit Plan (a "**Participant**"), a number of Phantom Units determined by dividing (i) an amount equal to the Designated Percentage of the Fees to have credited in Phantom Units on that Unit Allotment Date, by (ii) the Fair Market Value (the weighted average trading price of the Shares on any exchange where the Shares are listed including the Main Board for the last five trading days prior to such day) of a Share on that Unit Allotment Date, shall be credited to the Participant's account.

As at a Participant's termination date (being the date on which the Participant ceases to be a member of the Board by way of retirement, non-re-election as a director, resignation or death), the Participant (or his or her legal representative) is entitled to, by giving written notice to the Company, redeem all or a portion of the Phantom Units recorded on his or her account as at a particular date (the "**Redemption Date**"). The Participant is entitled on the Redemption Date to receive an amount equal to the number of Phantom Units to be redeemed on such Redemption Date multiplied by the Fair Market Value of a Share on such Redemption Date, net of any applicable deductions and withholdings.

The Phantom Unit Plan became effective on the Listing Date. Details of the Phantom unit Plan are set out in the Company's Prospectus. The independent non-executive directors were entitled to Phantom Units for their services rendered in 2016 and such deferred compensation was to be awarded based on the listing price of the Shares on the Listing Date.

Audit and Risk Committee

The Audit and Risk Committee comprises three members, namely Mr. Bryan Daniel Pinney (chairman), Mr. Richard Dale Orman and Mr. Peter David Robertson, all of them being independent non-executive Directors. The primary duties of the Audit and Risk Committee include overseeing the financial position of the Company, overseeing the Company's financial controls, internal control and risk management systems, the audit process and proposals of internal management, communicating independently with, monitoring and verifying the work of external auditors.

4 Audit and Risk Committee meetings were held during the year ended December 31, 2016.

Since the Listing Date and up to the date of this annual report, one meeting of the Audit and Risk Committee was held and the attendance record of the Audit and Risk Committee members is set out in the table below:

Directors	**Attended/Eligible to attend**
Mr. Bryan Daniel Pinney *(Chairman)*	1/1
Mr. Richard Dale Orman	1/1
Mr. Peter David Robertson	1/1

The Audit and Risk Committee reviewed the financial reporting, compliance procedures, internal control (including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function), risk management and the reappointment of the external auditor and fulfilled duties as required aforesaid. The Board had not deviated from any determination and recommendation given by the Audit and Risk Committee on the selection, appointment, resignation or dismissal of external auditor.

The Audit and Risk Committee also reviewed the final results of the Company for the fiscal year as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit. There are proper arrangements for employees, in confidence, to raise concerns about possible improprieties in financial reporting, internal control and other matters. Their written terms of reference are available on the websites of the Company and the Stock Exchange.

Directors' Responsibilities for Financial Reporting in Respect of Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2016 which give a true and fair view of the affairs of the Company and of the Company's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the auditor of the Company regarding their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report on page 71 of this annual report.

Internal Control and Risk Management

Internal Controls

The Board places great importance on internal controls and is responsible to ensure that the Company maintains sound and effective internal controls.

The Company reviews and monitors the adequacy and effectiveness of the internal control system on an ongoing basis. Since the Company does not have an internal audit function, the Company engaged the external consultants to complete testing of the design and effectiveness of its internal control system for the year ended December 31, 2016. The audit plans are discussed and agreed to for each year with the Audit and Risk Committee.

During the year the Board reviews the overall effectiveness of the Company's internal controls. The Board has reviewed the effectiveness of the Company's system of internal control for the year ended December 31, 2016. In conducting such review, the Board has:(i) reviewed and discussed the scope and results of the annual audit with the Company's independent external auditors; and (ii) reviewed with management the results of the Company's internal management representation process that was performed in connection with the preparation of the annual financial statements. Based on its review, the Board is not aware of any material defects in the effectiveness of internal controls.

Annual Assessment

A review of the effectiveness of the Company's internal control system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2016 was conducted with reference to the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) internal control framework, which assesses the Company's internal control system against the five components of internal control:control environment, risk assessment, control activities, information and communication, and monitoring. The Company has also conducted an annual review to assess the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their budget (for training and related programs). The approach, findings, analysis and results of this annual review have been reported to the Audit and Risk Committee and the Board.

Auditor's Remuneration

The Company incurred approximately C$873,132 in 2016 for services provided by the external auditor in connection with financial statements audits, interim review of the Company's interim financial statements and the initial public offering of the Company's shares and incurred approximately C$541 in 2016 for non-audit services related to tax compliance services.

Company Secretary and Primary Contact of the Company

The Company engaged Mr. Bennett Ka-Ying Wong, a partner in the Corporate Finance and M&A Group of the law firm of Gowling WLG (Canada) LLP, as the company secretary and the legal counsel of the Company.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Chau Hing Ling, the director of corporate services of Vistra Corporate Services (HK) Limited (a company secretarial service provider), as its joint company secretary to assist Mr. Bennett Ka-Ying Wong to discharge his duties as company secretary of the Company. Her primary corporate contact person at the Company is Ms. Jun Xiang, the interim Chief Financial Officer of the Company.

During the year ended December 31, 2016, Ms. Chau Hing Ling has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

General Meeting

The Company became listed on March 10, 2017. One general meeting was held during the year 2016.

Communication with Shareholders and Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and understanding of the Company's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company (the "**AGM**") provides opportunity for shareholders to communicate directly with the Directors. The Chairman of the Company, the chairmen of the Board Committees of the Company will attend the AGMs to answer shareholders' questions. The external auditor of the Company will also attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its shareholders and maintains a website at http://www.persta.ca, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

Shareholders' Rights

To safeguard shareholders' interests and rights, a separate resolution will be proposed for each issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting.

As regards proposing a person for election as a director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders and investors may send written enquiries or requests to the Company as follows:

Address: 2717, 308-4th Avenue SW, Calgary, Alberta, T2P 0H7, Canada

Fax: +1 403-446-1206

Email: ir@persta.ca

Enquiries are dealt with in a timely and informative manner.

Change in Constitutional Documents

The By-Laws of the Company have been amended and restated with effect from the Listing Date.

DIRECTORS' REPORT

The Board is pleased to present its report together with the audited financial statements of the Company for the year ended December 31, 2016.

Global Offering

The Company was incorporated with limited liability under the laws of Alberta on March 11, 2005. The Company's common shares (the "**Shares**") were listed on the Stock Exchange on March 10, 2017.

Principal Activities

The Company is principally engaged in natural gas and crude oil exploration and production, with a focus on natural gas. The Company focuses on long-term growth through acquisition, exploration, development and production in the Western Canadian Sedimentary Basin.

An analysis of the Company's revenue and operating profit for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and the statement of loss and other comprehensive loss in the financial statements.

Business Review

A review of the Company's business during the year, which includes a discussion of the principal risks and uncertainties faced by the Company, an analysis of the Company's performance using financial key performance indicators, particulars of important events affecting the Company during the year, and an indication of likely future developments in the Company's business, can be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this annual report. The financial risk management objectives and activities of the Company can also be found in note 24 to the financial statements. In addition, a discussion on relationships with its key stakeholders is included in the section headed "Management Discussion and Analysis" in this annual report. The review forms part of this directors' report.

Results

The results of the Company for the year ended December 31, 2016 are set out on pages 76 to 79 of this annual report.

Final Dividends

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2016.

Financial Summary

A summary of the Company's results, assets, liabilities for the last four financial years are set out on page 3 of this annual report. This summary does not form part of the audited financial statements.

DIRECTORS' REPORT

Use of Net Proceeds from the Company's Initial Public Offering

The gross proceeds from the Company's initial public offering on March 10, 2017 amounted to approximately HK$220 million. No use of proceeds is presented as this annual report covers activities up to December 31, 2016 only. None of the net proceeds raised from the Listing were applied before the date of this annual report. As at the date of this annual report, the Directors are not aware of any material change to the planned use of the proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. In 2017, the Company will use the proceeds raised from the IPO in accordance with its development strategies, market conditions and intended use of such proceeds.

Major Customers and Suppliers

For the year ended December 31, 2016, the Company's largest customers accounted for 50.0% of the Company's total revenue. The Company's five largest customers accounted for 99.0% of the Company's total revenue.

For the year ended December 31, 2016, the Company's largest suppliers accounted for 34.2% of the Company's total cost of sales. The Company's five largest suppliers accounted for 62.5% (2015: 56.1%) of the Company's total cost of sales.

None of the Directors or any of their associates (as defined under the Listing Rules or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Company's five largest suppliers or the Company's five largest customers.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company during the year ended December 31, 2016 are set out in note 8 to the financial statements.

Share Capital

Details of movements in the share capital of the Company during the year ended December 31, 2016 are set out in note 14 to the financial statements.

Reserves

Details of movements in the reserves of the Company during the year ended December 31, 2016 are set out on page 78 in the statement of changes in shareholders' equity.

Distributable Reserves

As at December 31, 2016, the Company's distributable reserves were Nil. (as at December 31, 2015: Nil).

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company as at December 31, 2016 are set out in note 12 to the financial statements.

Loan and Guarantee

During the year ended December 31, 2016, the Company had not made any loan or provided any guarantee for loans, directly or indirectly, to the Directors, senior management, its Controlling Shareholder or his/her respective connected persons.

Directors

The Directors during the year ended December 31, 2016 and up to the date of this report were:

Executive Director:

Mr. Le Bo *(Chairman)*

Non-executive Director:

Mr. Yuan Jing

Independent non-executive Directors:

Mr. Richard Dale Orman
Mr. Bryan Daniel Pinney
Mr. Peter David Robertson

Biographical Details of the Directors and the Senior Management

Biographical details of the Directors and the senior management of the Company as at the date of this annual report are set out on pages 6 to 11 in the section headed "Profile of Directors and Senior Management" to this annual report.

Confirmation of Independence of Independent Non-Executive Directors

The Company has received a confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent during the period from the date of their respective appointments and up to the date of this annual report.

Directors' Service Contract and Letter of Appointments

The executive Director has entered into a service contract with the Company for a term of three years commencing from February 26, 2016.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from February 26, 2016.

None of the Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts of Significance

No Director or any entity connected there with has or had a material interest in, either directly or indirectly, any transaction, arrangement or contract of significance to the business of the Company subsisting during or at the end of the year ended December 31, 2016.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2016.

Controlling Shareholders' Interests in Contracts

There was no contract of significance to which the Company or its holding company was a party and in which any Controlling Shareholder had a material interest which subsisted during the year ended December 31, 2016.

Contracts with Controlling Shareholders

No contract of significance has been entered into among the Company and the Controlling Shareholders during the year ended December 31, 2016.

Tax Relief and Exemption of Holders of Listed Securities

Dividends paid or credited or deemed to be paid or credited on the Shares to a Non-Resident Shareholder will be subject to a Canadian non-resident withholding tax at a rate of 25%, subject to reduction under the provisions of any applicable income tax treaty or convention between Canada and the country of which the Non-Resident Shareholder is resident.

A Non-Resident Shareholder may also be subject to tax in respect of any capital gain realized by such Shareholder on a disposition of Shares if the Shares constitute "taxable Canadian property" (as defined in the ITA) of the Non-Resident Shareholder at the time of disposition and the Non-Resident Shareholder is not entitled to relief under an applicable income tax treaty or convention. The Shares will generally not constitute taxable Canadian property to a Non-Resident Shareholder unless certain ownership thresholds and asset value tests have been satisfied.

Shareholders and potential investors should consult an independent tax adviser if they have any doubt about the application of Canadian federal income tax rules to their particular circumstances and the consequences to them of the purchase, ownership withholding tax on dividends and refund procedures as well as disposition of the Shares.

Employees

The Company had 10 employees as at December 31, 2016, which is unchanged from 2015. The employees of the Company are employed under employment contracts which set out, among other things, their job scope and remuneration. Further details of their employment terms are set out in the employee handbook of the Company. The Company determines the employees' salaries based on their job nature, scope of duty, and individual performance. The Company also provides reimbursements, allowances for site visits and a discretionary annual bonus for the employees. The Company also provides employees with welfare benefits in accordance with the applicable laws and the internal policies of the Company.

Retirement Benefits Scheme

The Company does not have any employee who is required to participate in the Mandatory Provident Fund in Hong Kong. The Company is in compliance with the statutory requirements in relation to retirement and employment insurance contributions. Subject to very few exceptions, every person over the age of 18 who works in Canada, as well as each employer, must contribute to the employment insurance ("**EI**") program and to the Canada Pension Plan ("**CPP**"). Each employee must pay half of the required contributions for CPP and each employer pays the remaining half. Each employee and employer pays their respective portion of the EI premiums.

Emolument Policy

A remuneration committee was set up for reviewing the Company's emolument policy and structure for all remuneration of the directors and senior management of the Company, having regard to the Company's operating results, individual performance of the directors and senior management and comparable market practices.

Remuneration of Directors and Five Individuals with Highest Emoluments

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 20 and 21 to the financial statements.

Directors' and Chief Executive's Interests and Short Position in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As the Company was not listed on the Main Board of the Stock Exchange as at December 31, 2016, Divisions 7 and 8 of Part XV of the SFO and section 352 of the SFO were not applicable to the Directors or chief executives of the Company as at December 31, 2016.

As at the date of this annual report, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interest in Shares of the Company

Name of Director	Nature of Interest	Number and class of Shares	Approximate percentage of shareholding
Le Bo (Notes 1 and 3)	Beneficial owner, interest of spouse, interest in controlled corporation and parties acting in concert	187,290,164 (Long Position)	67.30%
Yuan Jing (Notes 2 and 3)	Beneficial owner, interest in controlled corporation and parties acting in concert	187,290,164 (Long Position)	67.30%

Notes:

1. Mr. Le Bo ("Mr. Bo") holds 440,000 Common Shares, equivalent to approximately 0.16% of the total issued Common Shares of the Company. He is the spouse of Ms. Jing Hou ("Ms. Hou") and is therefore deemed to be interested in 440,000 Common Shares held by Ms. Hou under the SFO. Mr. Bo is one of the trustees of The Bo Family Trust.

   Mr. Bo also holds 1,000 class D voting preferred shares in 164 Co, representing approximately 99.01% of the voting rights of 164 Co.

   Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Aspen, Mr. Jing, JLHY, Mr. Bo, 164 Co and Liyuan become parties acting in concert and therefore Mr. Bo is deemed to be interested in the Common Shares in which Aspen, Mr. Jing, JLHY, 164 Co and Liyuan are interested in under the SFO, which in aggregate represent approximately 67.30% of the total issued Common Shares of the Company.

2. Mr. Jing holds 427,332 Common Shares, equivalent to approximately 0.15% of the total issued Common Shares of the Company. Mr. Jing is also interested in 60% of the equity interest in JLHY.

   Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Aspen, Mr. Jing, JLHY, Mr. Bo, 164 Co and Liyuan become parties acting in concert and therefore Mr. Jing is deemed to be interested in the Common Shares in which Aspen, JLHY, Mr. Bo, 164 Co and Liyuan are interested in under the SFO, which in aggregate represent approximately 67.30% of the total issued Common Shares of the Company.

3. Aspen holds 185,982,832 Common Shares and is owned as to 41.09%, 39.69% and 19.22% by JLHY, 164 Co and Liyaun respectively. Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Aspen, Mr. Jing, JLHY, Mr. Bo, 164 Co and Liyuan become parties acting in concert and therefore Aspen is deemed to be interested in all the Common Shares in which Mr. Jing and Mr. Bo are interested in under the SFO, which in aggregate represent approximately 67.3% of the total issued Common Shares of the Company.

Interest in shares of the associated corporation of the Company

Name of Directors	Name of associated corporation	Capacity/Nature of interest	Long/Short position	Number of shares	Approximate % of issued share capital
Le Bo (Note 1)	Aspen Investment Holdings Ltd.	Interest in controlled corporation	Long position	36,907,603	39.69%
Yuan Jing (Note 2)	Aspen Investment Holdings Ltd.	Interest in controlled corporation	Long position	38,213,630	41.09%

Notes:

1. Mr. Bo holds 1,000 class D voting preferred shares in 164 Co., representing approximately 99.01% voting rights of 164 Co, which in turn holds 36,907,603 shares in Aspen representing approximately 39.69% of the total number of the issued shares of Aspen.

2. Mr. Jing holds 60% of JLHY which in turn holds 38,213,603 shares in Aspen representing approximately 41.09% of the total number of the issued shares of Aspen.

Save as disclosed above, as at the date of this annual report, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

At no time during the year ended December 31, 2016 was the Company or its holding company, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As the Company was not listed on the Main Board of the Stock Exchange as at December 31, 2016, Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO were not applicable to the substantial shareholders of the Company as at December 31, 2016.

As at the date of this annual report, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Aspen (Note 1)	Beneficial owner and parties acting in concert	187,290,164 (Long Position)	67.30%
JLHY (Notes 1 and 3)	Interest in controlled corporation and parties acting in concert	187,290,164 (Long Position)	67.30%
Jing Hou (Note 4)	Beneficial owner, interest of spouse and parties acting in concert	187,290,164 (Long Position)	67.30%
164 Co (Notes 1 and 5)	Interest in controlled corporation and parties acting in concert	187,290,164 (Long Position)	67.30%
Liyuan (Note 6)	Interest in controlled corporation and parties acting in concert	187,290,164 (Long Position)	67.30%
Guang Jing (Note 7)	Interest in controlled corporation	187,290,164 (Long Position)	67.30%

Notes:

1. Aspen holds 185,982,832 Common Shares and is owned as to approximately 41.09%, 39.69% and 19.22% by JLHY, 164 Co and Liyuan respectively. Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Aspen, Mr. Jing, JLHY, Mr. Bo, 164 Co and Liyuan became parties acting in concert and therefore Aspen is deemed to be interested in all the Common Shares in which Mr. Jing and Mr. Bo are interested in under the SFO, which in aggregate represent approximately 67.30% of the total number of the issued Common Shares of the Company.

2. Mr. Jing holds 427,332 Common Shares, equivalent to approximately 0.15% of the total issued Common Shares of the Company. Mr. Jing is also interested in 60% of the equity interest in JLHY.

   Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Mr. Jing is deemed to be interested in the Common Shares in which Aspen, JLHY, Mr. Bo, 164 Co and Liyuan are interested in under the SFO, which in aggregate represent approximately 67.30% of the total number of the issued Common Shares of the Company.

3. JLHY is held as to 60% by Mr. Jing and 40% by Guang Jing, Mr. Jing's brother. Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, JLHY is deemed to be interested in all the Common Shares in which Aspen, Mr. Jing, Mr. Bo, 164 Co and Liyuan are interested in under the SFO, which in aggregate represent approximately 67.30% of the total number of the issued Common Shares of the Company.

4. Ms. Hou holds 440,000 Common Shares and is one of the trustees of The Bo Family Trust. She is the spouse of Mr. Bo and is therefore deemed to be interested in all the Common Shares in which Mr. Bo is interested in under the SFO.

5. Mr. Bo holds 1,000 class D voting preferred shares in 164 Co, representing approximately 99.01% voting rights of 164 Co. Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, 164 Co is deemed to be interested in all the Common Shares in which Aspen, Mr. Jing, JLHY, Mr. Bo and Liyuan are interested in under the SFO, which in aggregate represent approximately 67.30% of the total number of the issued Common Shares of the Company.

6. Liyuan is owned as to approximately 98%, 1% and 1% by JLHY, Zhou Li Mei and Jing Yue Li respectively. In addition, pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Liyuan is deemed to be interested in all the Common Shares in which Aspen, Mr. Jing, JLHY, Mr. Bo and 164 Co are interested in under the SFO, which in aggregate represent approximately 67.30% of the total number of the issued Common Shares of the Company.

7. Guang Jing holds 40% of the equity interest in JLHY and is therefore deemed to be interested in all the Common Shares in which JLHY is interested in under the SFO.

Save as disclosed above, and as at the date of this annual report, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

Purchase, Sale or Redemption of Listed Securities

The shares of the Company were first listed on the Main Board of the Stock Exchange on the Listing Date. The Company has not purchased, redeemed or sold any of its listed securities during the period from Listing Date to the date of this annual report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles, by-laws of the Company or the ABCA, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

Non-Competition Undertaking

Each of the Controlling Shareholders, namely 164 Co, Aspen, JLHY, Mr. Jing, Liyuan, Mr. Bo and Ms. Hou, has executed a deed of non-competition through which they have irrevocably and unconditionally undertaken to the Company that, during the period that the Deed of Non-competition remains effective, he/it/she shall not, and shall procure that his/its/her close associates (other than any member of the Company) shall not, directly or indirectly, develop, acquire, participate in, hold any right or interest or invest in or engage in, render any services for or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of the Company in Alberta, Canada or any other area in which the Company carries on business.

Each of the Controlling Shareholders further undertakes to and covenants with the Company that if he/it/she or his/its/her associates other than the Company is offered or becomes aware of any business opportunity directly or indirectly to engage or become interested in the business of the Company, he/it/she shall (and he/it/she shall procure his/its/her close associates to) notify the Company in writing and the Company shall have a right of first refusal to take up such business opportunity. The Company shall, within 30 days after receipt of the written notice (or such longer period if the Company is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the Controlling Shareholders as to whether the Company will exercise the right of first refusal or not. Each of the Controlling Shareholders undertakes to and covenants with the Company that he/it/she or his/its/her close associates may only take up such business opportunity if the Company has decided not to exercise the right of first refusal.

The details of the Deed of Non-competition have been disclosed in the Prospectus under the section headed "Relationship with Controlling Shareholders".

Directors' Interest in Competing Business

As at December 31, 2016, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Company.

Related Party Transactions

Details of the related party transactions of the Company for the year ended December 31, 2016 are set out in note 23 to the financial statements contained herein.

None of the related party transactions fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

Charitable Donations

During the year ended December 31, 2016, the Company made no charitable and other donations.

Audit and Risk Committee

The Audit and Risk Committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Company and the audited financial statements for the year ended December 31, 2016.

Model Code for Securities Transactions

The Company has adopted the Model Code as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company or the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the period from the Listing Date to the date of this annual report. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the Period.

Directors' Indemnities

The ABCA provides that except in respect of an action by or on behalf of the Company to procure a judgment in the favor of the Company, the Company may indemnify a Director or officer of the Company, a former Director or officer of the Company or a person who acts or acted at the request of the Company as a Director or officer of a body corporate of which the Company is or was a shareholder or creditor, and the Director's or officer's heirs and legal representatives, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the Director or officer in respect of any civil, criminal or administrative action or proceeding to which the Director or officer is made a party by reason of being or having been a Director or officer of the Company or body corporate if: (a) the Director or officer acted honestly and in good faith with a view to the best interests of the Company; and (b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the Director or officer had reasonable grounds for believing that the Director's or officer's conduct was lawful.

The Company may with the approval of the Court, indemnify a person referred to above in respect of an action by or on behalf of the Company or body corporate to procure a judgment in its favor, to which the person is made a party by reason of being or having been a Director or an officer of the Company or body corporate, against all costs, charges and expenses reasonably incurred by the person in connection with the action if the person fulfils the conditions set out above.

A person referred to above is entitled to and the Company has provided each of the independent non-executive directors an indemnity from the Company in respect of all costs, charges and expenses reasonably incurred by the person in connection with the defence of any civil, criminal or administrative action or proceeding to which the person is made a party by reason of being or having been a Director or officer of the Company or body corporate, if the person seeking indemnity: (a) was substantially successful on the merits in the person's defence of the action or proceeding; (b) fulfils the conditions set out above; and (c) is fairly and reasonably entitled to indemnity.

Corporate Governance

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 46 to 58 of this annual report.

Sufficiency of Public Float

Based on information publicly available to the Company and to the knowledge of the Directors, at least 25% of the Company's total issued share capital, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, are held by the public at all times as of the date of this annual report.

DIRECTORS' REPORT

Auditor

The shares of the Company were only listed on the Stock Exchange on March 10, 2017, and there has been no change in auditors since the Listing Date. The financial statements for the year ended December 31, 2016 have been audited by KPMG LLP, who are proposed for reappointment at the forthcoming AGM.

Material Legal Proceedings

The Company was not involved in any material legal proceeding during the year ended December 31, 2016.

Compliance with Laws and Regulations

For the year ended December 31, 2016, the Company was not aware of any non-compliance with relevant laws and regulations that would have an impact thereon.

Environmental Policies and Performance

Information on the environmental policies and performance of the Company is set out in the section headed "Management Discussion and Analysis" on page 44 of this annual report.

Continuing Disclosure Obligations Pursuant to the Listing Rules

The Company does not have any disclosure obligations under rules 13.20, 13.21 and 13.22 of the Listing Rules.

On behalf of the Board
Le Bo
Chairman

Calgary, Canada, April 26, 2017

INDEPENDENT AUDITOR'S REPORT

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

To the Shareholders of Persta Resources Inc.

Opinion

We have audited the financial statements of Persta Resources Inc. (the "Company"), which comprise the statement of financial position as at December 31, 2016, the statements of loss and other comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of the Company as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis For Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 Company in accordance with applicable independence standards, and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion of these matters (amounts below are reported in Canadian Dollars).

The key audit matter	How the matter was addressed in our audit

Valuation of property, plant and equipment ("PPE") — $68.3 million

Refer to note 8 to the financial statements.

At December 31, 2016, the carrying value of the Company's PPE was approximately $68.3 million. Impairment testing is required for PPE when events or changes in circumstances indicate that the carrying amount of PPE for each Cash Generating Unit may exceed its respective recoverable amount. The assessment of whether such events and circumstances exist at December 31, 2016 includes significant judgment.

The procedures that we performed, among others, included:

- Understanding the process and testing the design and implementation of the key controls over management's and the board of directors' review of externally evaluated reserves and impairment assessment.
- Examining and challenging management's assessment of whether indicators of possible impairment were present that would require impairment testing. We challenged management's assessment of whether indicators of possible impairment were present through our knowledge of the oil and gas industry and considering the reserve assessment and evaluation report obtained by the Company from its external reservoir engineers.
- Completing the procedures required by auditing standards to use the work of the Company's external reservoir engineers.
- We also considered the adequacy of the Company's disclosures in this area.

The key audit matter	How the matter was addressed in our audit
Valuation of Exploration and Evaluation ("E&E") Assets — $14.6 million Refer to note 7 to the financial statements.	
At December 31, 2016, the carrying value of the Company's E&E assets was approximately $14.6 million. Impairment testing is required for an E&E assets when events or changes in circumstances indicate that its carrying amount may exceed its recoverable amount. The assessment of whether such events and circumstances exist at December 31, 2016 includes significant judgment.	The procedures that we performed, among others, included: • Understanding the process and testing the design and implementation of the key controls over management's and the board of directors' review of exploration and evaluation assets and impairment assessment. • Inspecting the Company's assessment of whether events and circumstances existed at December 31, 2016 that would indicate the E&E assets are impaired and evaluated the assumptions used. Our evaluations focused on the status of the extension of the exploration licenses, and evaluation of the Company's planned exploration and development activities. • We also considered the adequacy of the Company's disclosures in this area.

Information Other Than the Financial Statements and Our Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

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 audit 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 audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the true and fair presentation of the financial statements in accordance with IFRS and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud of error.

In preparing the financial statements, the Directors are responsible for assessing the Company'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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are charged with the governance for overseeing the Company'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 ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' 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 Company'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 Company 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit responsible for issuing this independent auditor's report is Jason Brown.

KPMG LLP

Chartered Professional Accountants
Calgary, Canada
April 26, 2017

STATEMENT OF FINANCIAL POSITION

As at December 31, 2016 (Expressed in Canadian dollars)

	Note	As at December 31, 2016 C$	2015 C$
ASSETS			
Current assets			
Cash and cash equivalents	10	**3,966,154**	5,413,473
Accounts receivable	9	**3,228,055**	2,297,748
Prepaid expenses, deposits and deferred financing costs	9	**1,385,198**	1,458,450
		8,579,407	9,169,671
Non-current assets			
Exploration and evaluation assets	7	**14,562,811**	14,419,800
Property, plant and equipment	8	**68,288,825**	76,957,111
		82,851,636	91,376,911
Total assets		**91,431,043**	100,546,582
LIABILITIES AND TOTAL EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	11	**3,457,229**	2,246,728
		3,457,229	2,246,728
Non-current liabilities			
Bank loan	12	**35,055,200**	44,697,748
Decommissioning liabilities	13	**1,708,047**	1,764,990
		36,763,247	46,462,738
Total liabilities		**40,220,476**	48,709,466
Total equity			
Share capital	14	**169,247,367**	167,036,075
Common shares to be issued	14	**—**	552,037
Accumulated deficit		**(118,036,800)**	(115,750,996)
Total equity		**51,210,567**	51,837,116
Total liabilities and total equity		**91,431,043**	100,546,582

The accompanying notes form part of these financial statements.

The financial statements were approved and authorized for issue by the Board of Directors on April 26, 2017 and are signed on its behalf by:

Mr. Le Bo
Director

Mr. Yuan Jing
Director

STATEMENT OF LOSS AND OTHER COMPREHENSIVE LOSS

For the year ended December 31, 2016 (Expressed in Canadian dollars)

	Note	Year ended December 31, 2016 C$	2015 C$
Revenue from crude oil and natural gas sales	15	**23,705,746**	16,079,598
Royalties		**(1,780,341)**	(1,071,698)
Net revenue		**21,925,405**	15,007,900
Operating costs		**(6,326,913)**	(3,636,433)
General and administrative costs		**(2,711,725)**	(2,330,164)
Depletion and depreciation	8	**(7,764,395)**	(4,596,103)
Impairment loss and write-offs of exploration and evaluation assets	7	**(812,452)**	(2,363,231)
Impairment losses and write-offs of property, plant and equipment	8, 17	**—**	(749,971)
Share-based compensation	14	**(221,332)**	—
Transaction costs	25	**(2,980,561)**	(542,081)
Profit from operations		**1,108,027**	789,917
Other income		**11,174**	—
Finance expenses	16	**(3,405,005)**	(3,275,010)
Loss before income taxes	18	**(2,285,804)**	(2,485,093)
Income taxes	19	**—**	—
Loss and total comprehensive loss for the year attributable to owners of the Company		**(2,285,804)**	(2,485,093)
Loss per share	22		
Basic and diluted		**(0.01)**	(0.01)

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2016 (Expressed in Canadian dollars)

	Note	Common shares Class A C$	Common shares Class B C$	Common shares Class C C$	Common shares to be issued C$	Common shares C$	Accumulated deficits C$	Total equity C$
Balance as at January 1, 2015		10	18,796,475	146,209,590	–	–	(113,165,903)	51,840,172
Loss and total comprehensive loss for the year		–	–	–	–	–	(2,485,093)	(2,485,093)
New shares issued for cash	14(b)(iii)	–	–	2,480,000	–	–	–	2,480,000
Common shares to be issued	14(b)(i)	–	–	–	552,037	–	–	552,037
Repurchase of shares	14(b)(iv)	–	–	(450,000)	–	–	(100,000)	(550,000)
Balance as at December 31, 2015		10	18,796,475	148,239,590	552,037	–	(115,750,996)	51,837,116
Balance as at January 1, 2016		**10**	**18,796,475**	**148,239,590**	**552,037**	**–**	**(115,750,996)**	**51,837,116**
Loss and total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**(2,285,804)**	**(2,285,804)**
New shares issued	14(b)(i)	**–**	**523,330**	**1,687,962**	**(552,037)**	**–**	**–**	**1,659,255**
Share conversion and split	14(b)(ii)	**(10)**	**(19,319,805)**	**(149,927,552)**	**–**	**169,247,367**	**–**	**–**
Balance as at December 31, 2016		**–**	**–**	**–**	**–**	**169,247,367**	**(118,036,800)**	**51,210,567**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2016 (Expressed in Canadian dollars)

	Note	Year ended December 31, 2016 C$	2015 C$
Operating activities			
Loss for the year		**(2,285,804)**	(2,485,093)
Adjustments for:			
Depletion and depreciation	8	**7,764,395**	4,596,103
Amortization of debt issue costs	12	**315,259**	317,613
Accretion expense	13	**27,103**	20,403
Share-based compensation	14	**221,332**	—
Impairment loss and write-offs on exploration and evaluation assets	7	**812,452**	2,363,231
Impairment losses and write-offs on property, plant and equipment	8	**—**	749,971
Funds from operations		**6,854,737**	5,562,228
Changes in non-cash working capital	10(b)	**1,099,940**	(198,628)
Net cash generated from operating activities		**7,954,677**	5,363,600
Investing activities			
Expenditures on property, plant and equipment		**(192,331)**	(1,064,893)
Recovery of expenditure on property, plant and equipment		**1,100,000**	—
Expenditures on exploration and evaluation assets		**(1,219,486)**	(4,309,162)
Net cash used in investing activities		**(311,817)**	(5,374,055)
Financing activities			
Proceeds for common shares to be issued		**—**	552,037
Proceeds from share issuance		**1,437,923**	2,480,000
Proceeds from bank loan		**—**	2,500,000
Repurchase of shares		**—**	(550,000)
Repayment of loans		**(9,957,807)**	(4,041,345)
Other cash flows relating to financing activities		**(570,295)**	(491,674)
Net cash (used in)/generated from financing activities		**(9,090,179)**	449,018
(Decrease)/Increase in cash and cash equivalents		**(1,447,319)**	438,563
Cash and cash equivalents at the beginning of the year		**5,413,473**	4,974,910
Cash and cash equivalents at the end of the year	10(a)	**3,966,154**	5,413,473
Supplementary information:			
Interest paid		**2,696,238**	2,945,547

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Canadian dollars unless otherwise indicated)

1 Corporate Information

Persta Resources Inc. ("**Persta**" or the "**Company**") was incorporated under the Business Company's Act (Alberta) in 2005. Persta is an exploration and development company pursuing petroleum and natural gas production and reserves in Alberta. The Company's registered office is located at 1600, 421-7th Avenue SW, Calgary, Alberta T2P 4K9 and head office is located at #2717, 308-4th Avenue SW, Calgary, Alberta T2P 0H7.

At December 31, 2016 and 2015, Aspen Investment Holdings Ltd. ("**Aspen**"), a private corporation in Alberta, holds 90.07% and 89.11% of the total common shares, respectively and individual investors hold 9.93% and 10.89%, respectively of the total common shares of the Company. At December 31, 2016 and 2015, Ji Lin Hong Yuan Trade Group Limited ("**JLHY**"), which is a private corporation in the People's Republic of China (the "**PRC**") of which 50% of its equity interest is controlled by Mr. Yuan Jing, a director of the Company, held approximately 41.09% of the total common shares of Aspen, and 1648557 Alberta Limited ("**164 Co**"), which is a private corporation incorporated in Alberta and controlled by Mr. Le Bo, the president, chief executive officer and executive director of the Company, held 39.69% of the total common shares of Aspen. JLHY and 164 Co are the controlling shareholders of Aspen. On December 18, 2015 and as amended on April 29, 2016, JLHY, 164 Co, Mr. Le Bo, Mr. Yuan Jing and Changchun Liyuan Investment Co. Ltd., an entity controlled by JLHY, (collectively the "**unanimous shareholder parties**") entered into a unanimous shareholders agreement which confirmed, among other things, that the unanimous shareholder parties will act in concert as to voting in the shareholders and board meetings of the Company and/or Aspen.

As at December 31, 2016 and December 31, 2015, the directors consider the ultimate controlling parties of the Company to be JLHY and 164 Co.

2 Basis of Preparation

(a) Statement of compliance

The Financial Statements set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), and issued by the International Accounting Standards Board ("**IASB**").

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing these Financial Statements, the Company has adopted all applicable new and revised IFRSs to the year ended December 31, 2016, except for any new standards or interpretations that are not yet effective for the year ended December 31, 2016. The revised and new accounting standards and interpretations issued but not yet effective are set out in note 5.

The Financial Statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Statements.

(b) Basis of measurement

The Financial Statements are prepared on the historical cost basis except for derivative financial instruments, which are measured at fair value. The methods used to measure fair value are discussed in note 6.

2 Basis of Preparation (Continued)

(c) Functional and presentation currency

The Financial Statements are presented in Canadian dollars ("**C$**"), which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of Financial Statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial Statements and major sources of estimation uncertainty are discussed in note 4.

3 Significant Accounting Policies

The accounting policies have been applied consistently in all periods presented in these financial statements.

(a) Joint arrangements

Joint arrangements are contractual arrangements where the Company has joint control, and are classified as either joint operations or joint ventures. Joint operations exist when the Company has rights to the assets and obligations for the liabilities, relating to an arrangement. Currently the Company has two farm-out agreements whereby ultimately the Company and the working interest third party have an undivided working interest representing their share of the assets, liabilities, revenues and expenses relating to the joint operations. As such, the financial statements only include the Company's share of its assets, liabilities and transactions associated with the joint operations in the Stolberg and Provost areas.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

Revenue from the sale of crude oil and natural gas is recognized when title to the products passes to the purchasers based on volumes delivered at contracted delivery points and prices and are recorded gross of transportation charges incurred by the Company. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

3 Significant Accounting Policies (Continued)

(c) Finance income and expenses

Finance income comprises interest income and is recognized as the interest accrues, using the effective interest method. The effective interest method uses the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Finance expense comprises interest expense on the bank loan and various other loans, amortization of debt issue costs, accretion of the discount on decommissioning liabilities and foreign exchange gains and losses on foreign currency transactions.

(d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, bank debt and various other loans and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non- derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables and held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Gains and losses are recognized in profit or loss when the asset is derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets are subsequently measured at fair value, with changes in fair value recognized directly in other comprehensive income until the asset is derecognized or determined to be impaired, at which time the cumulative change in fair value previously reported in other comprehensive income is recognized in profit or loss. Financial assets at fair value through profit or loss are subsequently measured at fair value, with changes in those fair values recognized in profit or loss.

Financial assets are derecognized when the contractual rights to the cash flows expire, or when substantially all the risks and rewards of ownership of the financial asset are transferred to a third party.

Financial assets and liabilities are shown separately in the statement of financial position unless the Company has a legal right to offset the amounts and intends to either settle on a net basis or to realize the asset and settle the liability simultaneously, in which case they are presented on a net basis.

3 Significant Accounting Policies (Continued)

(d) Financial instruments (Continued)

(ii) Impairment of financial assets

A financial asset that is not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event has occurred after initial recognition and has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant financial assets are tested for impairment on an individual basis. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. The remaining financial assets are assessed collectively for impairment in groups that share similar credit risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

At initial recognition, financial liabilities are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities. All financial liabilities are recognized initially at fair value, normally being the transaction price less any directly attributable transaction costs. Transaction costs for instruments at fair value through profit or loss are recognized immediately in profit or loss. The subsequent measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value, with changes in those fair values recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the contractual obligation expires, is discharged, or cancelled. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognized in profit or loss.

3 Significant Accounting Policies (Continued)

(d) Financial instruments (Continued)

(iii) Derivative financial instruments

The Company may utilize financial derivatives and non-financial derivatives, such as commodity sales contracts requiring physical delivery, to manage the price risk attributable to the anticipated sale of crude oil and natural gas production and foreign exchange exposures. The Company does not enter into derivative financial instruments for trading or speculative purposes.

The Company considers all of these transactions to be economic hedges; however, they have not been designated as hedges for accounting purposes. As a result, all derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value, with changes in the fair value recognized in net income. The fair values of these derivative instruments are based on an estimate of the amounts that would have been received or paid to settle these instruments prior to maturity given future market prices and other relevant factors.

(e) Exploration and evaluation assets

Exploration and evaluation ("**E&E**") assets include costs capitalized by the Company in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Costs incurred before the Company has obtained the legal rights to explore an area are expensed.

E&E assets are initially capitalized as intangible assets and are not amortized. E&E assets are assessed for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount. An impairment loss is recognized in profit or loss and separately disclosed.

Once the technical feasibility and commercial viability of the extraction of resources in an area of interest are demonstrable based on technical data available to support the possible recovery of reserves, E&E assets attributable to that area are assessed for impairment with any impairment loss recognized in profit or loss. The remaining carrying value of the relevant E&E assets is then reclassified as development and production assets within property, plant and equipment.

For divestitures of E&E assets, a gain or loss is recognized in profit or loss for the difference between the net disposal proceeds and the carrying amount of the asset. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in profit or loss.

3 Significant Accounting Policies (Continued)

(f) Property, plant and equipment

Property, plant and equipment of the Company consists of development and production assets and office equipment.

Development and production assets

Development and production assets are carried at cost less accumulated depletion, depreciation, amortization and impairment losses. The cost of a development and production asset includes the initial purchase price and directly attributable expenditures to develop, construct and complete an asset. These costs include property acquisitions, development drilling, completion, gathering and infrastructure, asset retirement costs and transfers from E&E assets. Any costs directly attributable to bringing the asset to the location and condition necessary to operate as intended by management, and which result in an identifiable future benefit, are capitalized. Improvements that increase the capacity or extend the useful lives of related assets are also capitalized.

For divestitures of properties, a gain or loss is recognized in profit or loss for the difference between the net disposal proceeds and the carrying amount of the asset. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in profit or loss.

(g) Impairments

Development and production assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal ("FVLCD").

Value in use is estimated by consideration of the following:

(i) net present value of the proved plus probable reserves using a pre-tax discount rate as determined annually by independent reservoir engineers using future prices and costs; and

(ii) management's estimate of net present value of additional asset development not included in (i) above, using a pre-tax discount rate.

3 Significant Accounting Policies (Continued)

(g) Impairments (Continued)

FVLCD is estimated by consideration of the following:

(i) net present value of proved plus probable reserves using a pre-tax discount rate as determined annually by independent reservoir engineers using future prices and costs;

(ii) management's estimate of fair value of undeveloped land;

(iii) a review of the values indicated by the metrics of recent market transactions of similar assets within the oil and gas industry; and

(iv) management's estimate of additional fair value from asset development not included in (i) above.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

(h) Reversal of impairment

An impairment loss may be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and depletion, if no impairment loss had been recognized and circumstances indicate the loss no longer exists or is decreased. An impairment loss reversal is recognized in profit or loss.

(i) Depletion and depreciation

Depletion of development and production assets is provided using the unit-of-production method based on production volumes before royalties in relation to total estimated proved plus probable reserves as determined annually by independent reservoir engineers using future prices and costs. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil.

Calculations for depletion and depreciation are based on total capitalized costs plus estimated future development costs of proved plus probable reserves.

Depreciation of other assets is provided for on a 20%–100% declining balance basis.

3 Significant Accounting Policies (Continued)

(j) Decommissioning liability

The Company records a liability for the legal obligation associated with the retirement of long-lived tangible assets at the time the liability is incurred, normally when a long-lived tangible asset is purchased or developed, discounted to its present value using a risk-free interest rate. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the decommissioning liability cost, which is depleted on a unit-of-production basis over the life of the estimated proved plus probable reserves, before royalties. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to profit or loss in the period. The decommissioning liability obligation can also increase or decrease due to changes in estimates of timing of cash flow, changes in the original estimated undiscounted cost or changes in the discount rate. The decommissioning liability obligation is re-measured at each reporting date using the risk-free rate in effect at that time and the changes in fair value are capitalized as property, plant and equipment. Actual costs incurred upon settlement of the obligations are charged against the liability.

(k) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

The Company may incur various costs when issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Costs related to a planned equity offering not completed at the financial statement date are recorded as deferred financing costs until the offering is either completed or abandoned. The costs of an equity transaction that is abandoned are recognized as an expense.

(l) Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case the income tax is recognized directly in shareholders' equity.

Current income taxes payable are based on taxable earnings for the year. Taxable earnings differs from profit before income taxes as reported in the statement of loss and other comprehensive loss because of items of income or expense that are taxable or deductible in different years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period. Current taxes are recognized in profit or loss.

The Company follows the statement of financial position method of accounting for income taxes. Under this method, deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability.

3 Significant Accounting Policies (Continued)

(l) Income taxes (Continued)

Deferred income tax is calculated using the enacted or substantively enacted income tax rates expected to apply when the assets are realized or the liabilities are settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in profit or loss or shareholders' equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized only to the extent that it is probable that future taxable earnings will be available against which the assets can be utilized. Deferred tax assets are reduced to the extent that it is not probable that sufficient tax earnings will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset only when a legally enforceable right of offset exists and the deferred tax assets and liabilities arose in the same tax jurisdiction and relate to the same taxable entity.

(m) Related party transactions

(a) A person, or a close member of that person's family, is related to the Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

(vi) The entity is controlled or jointly-controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

3 Significant Accounting Policies (Continued)

(m) Related party transactions (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(n) Cash and cash equivalents

Cash and cash equivalents can consist of cash in bank and short-term highly liquid investments with original maturities of three months or less. At December 31, 2016, all of the Company's amounts consisted of cash held in bank and cash on hand.

(o) Loss per share

Basic loss per share is calculated by dividing the loss attributable to the shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to shareholders and the weighted average number of shares outstanding for the effects of all potential shares, which is comprised of any outstanding awards or options.

4 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of IFRS accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical Judgments in Applying Accounting Policies

The following are critical judgments that management has made in the process of applying the Company's IFRS accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

(i) Identification of CGUs

Persta's assets are aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. CGUs have been determined based on similar geological structure, shared infrastructure, geographical proximity, operating structure, commodity type and similar exposures to market risks. By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Company's assets in future periods.

4 Significant Accounting Judgments, Estimates and Assumptions (Continued)

Critical judgments in applying accounting policies (Continued)

(ii) Identification of impairment indicators

IFRS requires Persta to assess, at each reporting date, whether there are any indicators that its assets may be impaired. Persta is required to consider information from both external sources (such as a negative downturn in commodity prices and significant adverse changes in the technological, market, economic or legal environment in which the entity operates) and internal sources (such as downward revisions in reserves, significant adverse effect on the financial and operational performance of a CGU and evidence of obsolescence or physical damage to the asset). By their nature, these assumptions are subject to management's judgment and may impact the carrying value of the Company's assets in future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty for the year ended December 31, 2016 that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities within the next financial year.

(i) Reserves

Reported recoverable quantities of proved and probable reserves requires estimation regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in order to make an assessment of the size, shape, depth and quality of the reservoir, and the anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's petroleum and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Persta's petroleum and natural gas interests are evaluated by independent reserve engineers at least annually.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and NGLs which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proved and probable if producibility is supported by either production or conclusive formation tests. Persta's oil and gas reserves are determined in accordance with the standards contained in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities and the Canadian Oil and Gas Evaluation Handbook.

4 Significant Accounting Judgments, Estimates and Assumptions (Continued)

Key sources of estimation uncertainty (Continued)

(ii) Decommissioning obligations

The Company estimates future remediation costs of production facilities, well sites and gathering systems at different stages of development and construction of assets. In most instances, removal of assets occurs many years into the future. This requires an estimate regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

(iii) Impairment of non-financial assets

For the purposes of determining the extent of any impairment or its reversal, estimates must be made regarding future cash flows taking into account key assumptions including future petroleum and natural gas prices, expected forecasted production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amount of the Company's assets, and impairment charges and reversals will affect income or loss.

(iv) Taxes

Persta files corporate income tax, goods and service tax and other tax returns with various provincial and federal taxation authorities in Canada. There can be differing interpretations of applicable tax laws and regulations. The resolution of any differing tax positions through negotiations or litigation with tax authorities can take several years to complete. The Company does not anticipate that there will be any material impact upon the results of its operations, financial position or liquidity.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in income or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted funds from operations. During the years ended December 31, 2016 and 2015, the Company has not recorded any deferred tax assets or liabilities due to the uncertainty of future taxable profits.

5 Future Changes in Accounting Policies

Possible impact of amendments, new standards and interpretations issued but not yet effective

Up to the date of issue of the Financial Statements, the IASB has issued a few amendments and new standards which are not yet effective for the current accounting period and which have not been adopted in the financial statements.

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Company has identified some aspects of the new standards which may have an impact on the financial statements. Further details of the possible impacts are discussed below. As the Company has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

IFRS 9 — Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9, "*Financial Instruments" to replace IAS 39, "Financial Instruments: Recognition and Measurement".* IFRS 9 is effective for years beginning on or after January 1, 2018. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the financial statements. Expected impacts of the new requirements on the Company's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("**FVTPL**") and (3) fair value through other comprehensive income ("**FVTOCI**") as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognized in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognized in profit or loss. Gains, losses and impairments on that security will be recognized in other comprehensive income without recycling.

Based on the preliminary assessment, the Company expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

5 Future Changes in Accounting Policies (Continued)

Possible impact of amendments, new standards and interpretations issued but not yet effective (Continued)

IFRS 9 — Financial Instruments (Continued)

(a) *Classification and measurement (Continued)*

Available-for-sale investments in equity securities are investments which the Company may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to IFRS 9. The Company has no financial assets currently classified as "available-for-sale" and therefore this new requirement may not have any impact on the Company on adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognized in other comprehensive income (without reclassification to profit or loss). The Company currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Company on adoption of IFRS 9.

(b) *Impairment*

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognized. Instead, an entity is required to recognize and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Company's trade receivables and other financial assets. Based on the preliminary assessment, this new requirement may not have any material impact on the Company on adoption of IFRS 9.

(c) *Hedge accounting*

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Company has no hedges under IAS 39 and therefore this may not have any impact on the Company on adoption of IFRS 9.

IFRS 15 — Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, "*Revenue from Contracts with Customers*", which replaces IAS 18 "*Revenue*", IAS 11 "*Construction Contracts*", IFRIC 13 "*Customer Loyalty Programmes*" and related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It also includes guidance on when to capitalize costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or applying a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the financial statements. Based on the preliminary assessment, the new requirements may not have any material impact on the Company on adoption of IFRS 15.

5 Future Changes in Accounting Policies (Continued)

Possible impact of amendments, new standards and interpretations issued but not yet effective (Continued)

IFRS 16 — Leases

In January 2016, the IASB issued IFRS 16, "*Leases*", which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognized assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019. It replaces IAS 17 "*Leases*" and the related interpretations including IFRIC 4 "*Determining whether an arrangement contains a lease*".

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognized on a systematic basis over the lease term.

IFRS 16 could affect the Company's accounting treatment in its capacity as a lessee of leases of office premise and compressors which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss and other comprehensive income over the period of the lease.

As disclosed in note 26, at December 31, 2016 the Company's future minimum lease payments under non-cancellable operating leases amounted to C$562,496 and C$113,850 for office premise and compressors respectively, the majority of which is payable within a year after the reporting date. Some of these amounts may therefore need to be recognized as lease liabilities, with corresponding right-of- use assets, once IFRS 16 is adopted. The Company will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

The Company is considering whether to adopt IFRS 16 before its effective date of January 1, 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being January 1, 2018.

5 Future Changes in Accounting Policies (Continued)

Possible impact of amendments, new standards and interpretations issued but not yet effective (Continued)

Amendments to IAS 7 — Statement of cash flows: Disclosure Initiative

On January 7, 2016, the IASB issued the amendments to IAS 7, "*Statement of cash flows: Disclosure Initiative*". The amendments apply prospectively for annual reporting periods beginning on or after January 1, 2017. Earlier application is permitted. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual reporting period beginning on January 1, 2017. The Company is currently evaluating the impact of adopting the amendments to IAS 7 on the financial statements.

Amendments to IAS 12 — Recognition of Deferred Tax Assets for Unrealized Losses

On January 19, 2016 the IASB issued the amendments to IAS 12, "*Recognition of Deferred Tax Assets for Unrealized Losses*". The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2017. Earlier application is permitted. The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual reporting period beginning on January 1, 2017. The Company is currently evaluating the impact of adopting the amendments to IAS 12 on the financial statements.

Amendments to IFRS 2 — Classification and Measurement of Share-based Payment Transactions

On June 20, 2016, the IASB issued the amendments to IFRS 2, "*Classification and Measurement of Share-based Payment Transactions*", clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual reporting periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual reporting period beginning on January 1, 2018. The Company is currently evaluating the impact of adopting the amendments to IFRS 2 on the financial statements.

The Company does not plan to early adopt the above new standards or amendments. With respect to IFRSs 9, 15 and 16 and amendments to IASs 7 and 12 and IFRS 2, given the Company has not completed its assessment of their full impact on the Company, their possible impact on the Company's results of operations and financial position has not been quantified.

6 Determination of Fair Value

A number of the Company'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 both 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) Cash and cash equivalents, accounts receivable, deposits and accounts payable and accrued liabilities

The fair value of cash and cash equivalents, accounts receivable, deposits and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2016, the fair value of these balances approximated their carrying value due to their short term to maturity.

(b) Loans

The fair value of bank loans approximates their carrying value, as they bear interest at floating rates and the premium charged as at December 31, 2016 was indicative of the Company's current credit spreads. As at December 31, 2016, the fair value of these balances approximated their carrying value.

(c) Financial derivative instruments

The fair value of financial derivative contracts and swaps is derived from quoted prices received from financial institutions and is based on published forward price curves as at the measurement date, using the remaining contracted oil and natural gas volumes.

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

— Level 1 — observable inputs such as quoted prices in active markets;

— Level 2 — inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and

— Level 3 — unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The fair value of any financial derivative instruments entered into by the Company have been measured using above criteria. The fair value of the Company's loans have been measured using:

— Bank loans:	Level 2
— Other debts:	Level 3

During the year ended December 31, 2016, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

7 E&E Assets

A continuity of the net book value of E&E assets is set out below:

		As at December 31,	
	Note	**2016 C$**	2015 C$
Balance, beginning of year		**14,419,800**	13,040,540
Additions		**955,463**	3,877,093
Transfer to property, plant and equipment	8	**—**	(134,602)
Write-offs		**(812,452)**	(2,363,231)
Balance, end of year		**14,562,811**	14,419,800

E&E assets consist of undeveloped lands, unevaluated seismic data and unevaluated drilling and completion costs on the Company's exploration projects which are pending the determination of proven or probable reserves. Transfers are made to or from property, plant and equipment as proven or probable reserves are determined. E&E assets are expensed due to non-economic drilling and completion activities and lease expires.

For the year ended December 31, 2016, additions include general and administrative costs amounting to C$444,455 (December 31, 2015: C$798,650) that were capitalized relating to development activities.

The Company performs an impairment test to assess the recoverability of E&E assets on the transfer to property, plant and equipment.

During the year ended December 31, 2016, the Company directly wrote-off C$812,452 (December 31, 2015: C$2,363,231) of E&E assets as a result of the expiry of certain land leases that were considered not to have further prospective value.

Included within the Company's exploration and evaluation assets are lands totaling C$2,247,609 which were due to expire on January 1, 2017. The Company submitted applications to extend the terms of the Company's lease of these lands to March 31, 2017 and on January 30, 2017 the Company received notice that the applications were successful. As a requirement of the application, the Company was required to perform certain exploration and evaluation activities during the three months ended March 31, 2017. The Company has performed the required exploration and evaluation activities during the three months ended March 31, 2017. As a result, the Company was granted a further extension of these lands to September 30, 2017 with the requirement of the performance of certain exploration and evaluation activities.

8 Property, Plant and Equipment

Net book value of property, plant and equipment to December 31, 2016 is set out below:

	Note	Cost C$	Accumulated depletion and depreciation C$	Net book value C$
Balance, January 1, 2015		153,266,076	(71,442,520)	81,823,556
Additions		217,054	—	217,054
Change in decommissioning obligations	13	127,973	—	127,973
Transfer from E&E assets	7	134,602	—	134,602
Impairment loss and write offs	17	(749,971)	—	(749,971)
Depletion and depreciation		—	(4,596,103)	(4,596,103)
Balance, December 31, 2015		152,995,734	(76,038,623)	76,957,111
Balance, January 1, 2016		**152,995,734**	**(76,038,623)**	**76,957,111**
Additions		**280,155**	**—**	**280,155**
Change in decommissioning obligations	13	**(84,046)**	**—**	**(84,046)**
Depletion and depreciation		**—**	**(7,764,395)**	**(7,764,395)**
Recovery of expenditure on property, plant and equipment		**(1,100,000)**	**—**	**(1,100,000)**
Balance, December 31, 2016		**152,091,843**	**(83,803,018)**	**68,288,825**

Substantially all of property, plant and equipment consists of development and production assets.

During the year ended December 31, 2016, the Company received a cash payment of C$1,100,000 (December 31, 2015: C$nil) from a supplier in relation to remedial work for various capital related activities in the year ended December 31, 2013 and as such the recovery has been recorded as a reduction in property, plant and equipment.

Depletion, depreciation and impairment charges

Depletion and depreciation, impairment of property, plant and equipment, and any reversal thereof, are recognized as separate line items in the statement of loss and other comprehensive loss. The depletion calculation as at December 31, 2016, includes estimated future development costs of C$30,250,000 (December 31, 2015: C$42,264,000) respectively associated with the development of the Company's proved plus probable reserves.

There were no indicators of impairment identified at December 31, 2016 (see note 17).

9 Accounts Receivable and Prepaid Expenses, Deposits and Deferred Financing Costs

Accounts Receivable

	As at December 31,	
	2016	2015
	C$	C$
Trade receivables	**3,069,420**	1,326,217
Other receivable		
— Amount due from JLHY (note)	**156,283**	156,283
— Others	**2,352**	815,248
	3,228,055	2,297,748

Note: As at December 31, 2015, the amount due from JLHY was attributable to the settlement of withholding tax on behalf of JLHY by the Company. The amount is non-trade in nature, unsecured, non-interest bearing and due on demand, which was fully settled in February 2017.

(a) Aging analysis of trade receivables

As at December 31, 2016, the aging analysis of trade receivables (included in accounts receivable), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at December 31,	
	2016	2015
	C$	C$
Within 1 month	**3,054,555**	1,311,734
1 to 2 months	**428**	—
2 to 3 months	**—**	—
Over 3 months	**14,437**	14,483
	3,069,420	1,326,217

Trade receivables are to be collected within 25 days from the date of billing.

(b) Impairment of accounts receivable

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Company is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. No impairment loss has been recognized in respect of trade receivables for the years ended December 31, 2016 and December 31, 2015.

No trade receivables, which are included in accounts receivable, are considered individually nor collectively to be impaired. No material balances of trade receivables are past due.

9 Accounts Receivable and Prepaid Expenses, Deposits and Deferred Financing Costs (Continued)

Prepaid expenses, deposits and deferred financing costs

	As at December 31,	
	2016	2015
	C$	C$
Prepaid expenses	**155,176**	328,775
Deposits	**202,911**	672,859
Deferred financing costs	**1,027,111**	456,816
	1,385,198	1,458,450

At December 31, 2016, prepaid expenses include office rental fees, insurance and software; deposits include C$187,781 (December 31, 2015: C$657,604) held with the Alberta Government relating to crown royalty deposits.

During the year ended December 31, 2015 the Company initiated a process to become a listed entity on The Stock Exchange of Hong Kong Limited. The costs associated with the issuance of new equity were recorded as deferred financing costs (see note 9) whereas costs associated with the listing were expensed as transaction costs. On March 10, 2017, the Company successfully listed on the Stock Exchange of Hong Kong and the Company issued 69,580,000 new shares at a price of HK$3.16 per share (C$0.54 per share), resulting in gross proceeds of HK$220 million (approximately C$38 million). The costs associated with the issuance of new equity are estimated at approximately C$3 million and therefore the net amount to be recorded as share capital is estimated to be approximately C$35 million. The deferred financing costs were reclassified against share capital upon issuance of the new shares in March 2017 and the Company has estimated further transactions costs have been incurred in fiscal 2017 totalling approximately C$3 million which will be expensed in fiscal 2017.

10 Cash and Cash Equivalents

(a) Cash and cash equivalents comprise:

	As at December 31,	
	2016	2015
	C$	C$
Deposits with banks and other financial institutions (see note 12)	**3,954,862**	5,405,648
Cash on hand	**11,292**	7,825
Cash and cash equivalents in the statement of financial position and statement of cash flows	**3,966,154**	5,413,473

10 Cash and Cash Equivalents (Continued)

(b) Supplementary cash flows information

The following table details the changes in non-cash working capital for the years ended December 31, 2016:

	Year ended December 31,	
	2016	2015
	C$	C$
Change in non-cash working capital:		
Accounts receivable	**(930,307)**	2,228,314
Prepaid expenses, deposits and deferred financing costs	**73,252**	(745,293)
Accounts payable and accrued liabilities	**1,210,501**	(3,453,231)
	353,446	(1,970,210)
Add: Movement in non-cash working capital directly included in investing and financing activities	**746,494**	1,771,582
	1,099,940	(198,628)

11 Accounts Payable and Accrued Liabilities

	As at December 31,	
	2016	2015
	C$	C$
Trade payables	**921,300**	883,564
Accrued liabilities	**1,651,302**	701,479
Other payables	**884,627**	661,685
	3,457,229	2,246,728

11 Accounts Payable and Accrued Liabilities (Continued)

All accounts payable are expected to be settled within one year or are payable on demand.

As at December 31, 2016, the aging analysis of trade payables and accrued liabilities (included in accounts payable and accrued liabilities), is as follows:

	As at December 31,	
	2016	2015
	C$	C$
Within 1 month	**1,394,933**	1,252,015
1 to 3 months	**1,169,331**	333,028
Over 3 months but within 6 months	**8,338**	—
	2,572,602	1,585,043

12 Bank Loan

	As at December 31,	
	2016	2015
	C$	C$
Bank loan	**35,622,328**	45,580,135
Less: unamortized debt issue costs	**(567,128)**	(882,387)
Balance, end of year	**35,055,200**	44,697,748

12 Bank and Other Debts (Continued)

As at December 31, 2016, the Company had a C$190,000,000 credit facility in place comprised of a C$100,000,000 revolving credit facility and a C$90,000,000 term facility. All advances under the credit facility and term facility are required to be approved by the lender. Under the revolving credit facility, C$50,000,000 is firm committed, to which the Company repaid C$9,957,807 of the principal during the year ended December 31, 2016. With respect to the term facility, it was comprised of Tranche A to a maximum of C$10,000,000 which could be used for drilling, completion and acquisition of surface equipment and Tranche B to a maximum of C$90,000,000 for future development costs. The Tranche A term facility expired during the year ended December 31, 2016 and the Tranche B remains available, with any advances subject to the approval by the lender. No amounts were outstanding under the term facility as at December 31, 2016 and 2015. In addition, the Company maintains C$558,000 of letters of credit outstanding as at December 31, 2016 (December 31, 2015: C$264,000) for transportation service.

All amounts outstanding under the revolving credit facility bear interest at the Canadian Dealer Offered Rate ("**CDOR**" means the arithmetic average of the yields to maturity for bankers' acceptances quoted on the Reuter's Canadian Deposit Offered Rate) plus a margin of 5.5% per annum and the term facility bears interest at 7% fixed per annum. As at December 31, 2016, the applicable effective interest rate on the revolving credit facility was 6.5%. The facility is secured by a C$400 million debenture with a floating charge over all present and after-acquired real and personal property.

All principal amounts outstanding under the facility are due on maturity being October 20, 2018. The available level of credit is subject to a semi-annual review by the lender to be completed by March 1 and September 1 of any given year. The credit facility and the borrowing base may be adjusted by the lender for changes in reserves, commodity prices and other factors. A decrease in the borrowing base could result in a reduction of the credit facility. If the credit facility is reduced, the Company has 60 days to pay any shortfall irrespective of the maturity date of the credit facility. The Company is required to meet certain financial based covenants under the terms of this facility as follows: 1) maintain a working capital ratio (the ratio of current assets to current liabilities) of greater than 1 to 1; 2) maintain a debt coverage ratio (the ratio of total debt to net operating cash flow as defined below) of less than 3 to 1 commencing January 1, 2016 (required threshold rate was 4 to 1 before January 1, 2016); 3) maintain an interest coverage ratio (the ratio of net operating cash flow to interest expense for all debt of the Company) of greater than 4 to 1; and 4) maintain an adjusted present value ratio (ratio of total adjusted present value (reserve based) as defined below to total debt) of greater than 1.7 to 1 commencing January 1, 2016 (required threshold rate was 2 to 1 before January 1, 2016). In addition, the Company cannot exceed a maximum of general and administrative expenses equal to 11% of net operating cash flows unless funded through advances of equity (the "G&A cap"). Under the credit facility agreement "net operating cash flow" is defined, on a cash basis, as the Company's gross cash receipts from the sale of production volumes and all other cash receipts from whatever source less cash operating costs and royalty expenses paid and "total debt" is defined as the consolidated debt of the Company and including any current asset or liability; and "adjusted present value (reserve based)" is defined as the sum of the Proved Developed Producing Reserves (PDP) present value (discounted at ten percent (10%)) plus the Proved Developed Non Producing Reserves (PDNP) present value (discounted at ten percent (10%)) plus the Proved Undeveloped Reserves (PUD) present value (discounted at ten percent (10%)) based on the most recently received independent reserve report. As at December 31, 2016 and December 31, 2015, the Company was in compliance with all covenants and terms under the facility. All terms included in the covenants and terms described above are as defined by the lender. See further discussion in note 24(b) in the financial statements.

13 Decommissioning Liabilities

The total future decommissioning obligations were estimated based on the Company's net ownership interest in petroleum and natural gas assets including well sites, gathering systems and facilities, the estimated costs to abandon and reclaim the petroleum and natural gas assets and the estimated timing of the costs to be incurred in future periods. As at December 31, 2016, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations to be approximately C$2,258,643 which will be incurred between 2017 and 2057. The majority of these costs will be incurred by 2035. As at December 31, 2016, an average risk free rate of 1.46% (December 31, 2015 — 1.20%) and an inflation rate of 2% (December 31, 2015 — 2%) were used to calculate the decommissioning obligations.

The following reconciles the Company's decommissioning liabilities:

	As at December 31,	
	2016	2015
	C$	C$
Balance, beginning of year	**1,764,990**	1,616,614
Change in estimate	**(84,046)**	127,973
Accretion expense	**27,103**	20,403
Balance, end of year	**1,708,047**	1,764,990

14 Share Capital

(a) Authorized:

The Company is authorized to issue an unlimited number of common shares and the following classes of shares:

(1) Class A voting common shares;*

(2) Class B non-voting common shares;*

(3) Class C non-voting common shares;*

(4) First preferred shares; and

(5) Second preferred shares.

* see note 14(b)(ii)

14 Share Capital (Continued)

(b) Issued:

	Note	Class A Number (Note (ii))	Class A Amount C$	Class B Number (Note (ii))	Class B Amount C$	Class C Number (Note (ii))	Class C Amount C$	Common Shares Number	Common Shares Amount C$	Total Amount C$
At January 1, 2015		2,000	10	23,477,017	18,796,475	180,866,209	146,209,590	–	–	165,006,075
Shares issued for cash	(iii)	–	–	–	–	2,700,000	2,480,000	–	–	2,480,000
Repurchase of shares	(iv)	–	–	–	–	(550,000)	(450,000)	–	–	(450,000)
At December 31, 2015		2,000	10	23,477,017	18,796,475	183,016,209	148,239,590	–	–	167,036,075
At January 1, 2016		**2,000**	**10**	**23,477,017**	**18,796,475**	**183,016,209**	**148,239,590**	**–**	**–**	**167,036,075**
Shares issued for cash	(i)	**–**	**–**	**523,330**	**523,330**	**1,687,964**	**1,687,962**	**–**	**–**	**2,211,292**
Re-designation of Class A common shares and conversion of Class B and C common shares to Common Shares	(ii)	**(2,000)**	**(10)**	**(24,000,347)**	**(19,319,805)**	**(184,704,173)**	**(149,927,552)**	**208,706,520**	**169,247,367**	**–**
At December 31, 2016		**–**	**–**	**–**	**–**	**–**	**–**	**208,706,520**	**169,247,367**	**169,247,367**

During the year ended December 31, 2016, the Company conducted the following transactions:

(i) On January 6, 2016 the Company issued 1,687,964 (pre-share split: 843,981) Class C common shares at a price of C$1.00 (pre-share split: C$2.00) per share to individual investors for proceeds totaling C$1,687,962, among which C$552,037 of cash proceeds from the new shares issuing was transferred from JLHY (collected by JLHY from the individual shareholders) to the Company in December 2015 (see note 23); the remaining C$1,135,925 of the new shares issuing proceeds were held by JLHY (collected by JLHY from the new shareholders) and were received by the Company in December 2016.

On January 18, 2016, the Company issued 163,330 (pre-share split: 81,665) Class B common shares to employees at a price of C$0.60 (pre-share split: C$1.20) per share for cash proceeds totaling C$97,998. On February 24, 2016, the Company issued 280,000 (pre-share split: 140,000) Class B common shares to employees and consultant at a price of C$0.60 (pre-share split: C$1.20) per share for cash proceeds totaling C$168,000, and 80,000 (pre-share split: 40,000) Class B common shares at a price of C$0.45 (pre-share split: C$0.90) per share for proceeds totaling C$36,000. The Class B common shares issued to the employees and consultant were recorded at the deemed price of C$1.00 (pre-share split: C$2.00) per share. The issuance of the Class B common shares resulted in share-based compensation totaling C$221,332.

(ii) On February 26, 2016, the shareholders of the Company approved, among others, the (i) re-designation of Class A common shares as common shares; (ii) conversion of all Class B and Class C common shares for common shares on an one for one basis and (iii) share split of the issued and outstanding shares of the Company on every one common share for two common share basis. The aforesaid re-designation, share conversion and share split were completed on April 29, 2016. The share split has been reflected in the financial statements for the historical periods on a retroactive basis.

14 Share Capital (Continued)

(b) Issued: (Continued)

During the year ended December 31, 2015, the Company conducted the following transactions:

(iii) On February 6, 2015, the Company issued 500,000 (pre-share split: 250,000) Class C common shares at a price of C$1.00 (pre-share split: C$2.00) per share for proceeds totaling C$500,000; on December 16, 2015, the Company issued 2,200,000 (pre-share split: 1,100,000) Class C common shares at a price of C$0.9 (pre-share split: C$1.80) per share for proceeds totaling C$1,980,000.

(iv) The Company repurchased 500,000 (pre-share split: 250,000) Class C common shares of a price of C$1.00 (pre-share split: C$2.00) per share for cash totaling C$500,000 on February 6, 2015 and 50,000 (pre-share split: 25,000) Class C common shares at a price of C$1.00 (pre-share split: C$2.00) per share for cash totaling C$50,000 on October 14, 2015. The repurchase of the shares on February 6, 2015 resulted in C$100,000 being recorded to accumulated deficit.

15 Revenue

The amount of each significant category of revenue recognized for the years ended December 31, 2016 and 2015 is as follows:

	Year ended December 31,	
	2016	2015
	C$	C$
Sales of natural gas, NGLs and condensate	**22,605,768**	15,120,658
Sales of crude oil	**1,099,978**	958,940
	23,705,746	16,079,598

For the year ended December 31, 2016, the Company's customer base includes two customers (December 31, 2015: two customers), with whom transactions have exceeded 10% of the Company's revenues. For the year ended December 31, 2016, revenues from sales to these customers amounted to C$20,049,946 (December 31, 2015: C$13,555,712).

16 Finance expenses

	Note	Year ended December 31, 2016 C$	2015 C$
Interest expense and financing costs		**3,062,643**	2,936,994
Amortization of debt issue costs	12	**315,259**	317,613
Accretion expense	13	**27,103**	20,403
Total finance expenses		**3,405,005**	3,275,010

17 Impairment Loss on Property, Plant and Equipment

Impairment is assessed based on the recoverable amount compared with the asset's carrying amount to measure the amount of the impairment. In addition, where a non-financial asset does not generate largely independent cash inflows, the Company is required to perform its test at a CGU, which is the smallest identifiable grouping of assets that generates largely independent cash inflows.

During the year ended December 31, 2016, there were no indicators of impairment for the Company's two CGUs being the Basing, Alberta CGU and the Dawson, Alberta CGU. As such, no impairment loss was recorded.

During the year ended December 31, 2015, the Company identified indicators of impairment for certain CGUs due to overall declines in forecasted commodity prices. As at December 31, 2015, management identified impairment triggers for the Dawson, Alberta CGU due to declines in forecasted oil prices and the Basing, Alberta CGU due to declines in forecasted natural gas prices. As such, management performed impairment tests for each of the CGUs noted above for the applicable periods.

Based on the assessment as at December 31, 2015, the carrying amount of the property, plant and equipment within the Company's Dawson CGU was determined to be C$208,005 higher than its recoverable amount. As such, a corresponding impairment loss was recognized. In addition, the Company recorded a direct write-off of property, plant and equipment totaling C$541,966 during the year ended December 31, 2015.

No impairment was recorded for the Basing, Alberta CGU during the year ended December 31, 2015.

The recoverable amount of each CGU was estimated based upon the higher of the value in use or FVLCTS. In each case, the value in use methodology was used. In determining value in use, forecasted cash flows pre-tax discount rate at 10 percent was used, with escalated prices and future development costs, as obtained from the reserve report.

17 Impairment Loss on Property, Plant and Equipment (Continued)

As at December 31, 2015, the Company utilized the following benchmark prices and exchange rates to determine the forecast prices in the value in use calculation:

Year	WTI Oil (US$/Bbl)	AECO Gas (C$/mmbtu)	US$/C$ exchange rates
2016	44.00	2.76	0.725
2017	52.00	3.27	0.750
2018	58.00	3.45	0.775
2019	64.00	3.63	0.800
2020	70.00	3.81	0.825
2021	75.00	3.90	0.850
2022	80.00	4.10	0.850
2023	85.00	4.30	0.850
2024	87.88	4.50	0.850
2025	89.63	4.60	0.850
2026(1)	+2%/yr	+2%/yr	0.850

(1) Approximate percentage change in each year after 2025 to the end of the reserve life.

18 Personnel and Other Costs

Personnel and other costs incurred during the years ended December 31, 2016 and 2015 were as follows:

	Year ended December 31, 2016 C$	2015 C$
(a) Personnel costs		
Salaries, wages and other benefits	**1,236,853**	1,147,416
Retirement benefits contribution	**25,840**	24,019
Share-based compensation	**221,332**	—
	1,484,025	1,171,435
(b) Other items		
Operating lease charges		
— office premises	**530,499**	480,182
— compressors	**495,150**	424,650
Auditors' remuneration		
— audit services (1)	**873,132**	85,095
— non-audit services	**541**	—

(1) Out of the audit fees of $873,132, $669,849 has been charged to the statement of loss and other comprehensive loss and $203,283 is included in prepaid expenses, deposits and deferred financing costs.

19 Income Taxes

The provision for income taxes differs from the result that would have been obtained by applying the combined federal and provincial tax rates to the loss before income taxes. The difference results from the following items.

	Year ended December 31,	
	2016	2015
	C$	C$
Loss before income taxes	**(2,285,804)**	(2,485,093)
Combined Federal and Provincial tax rate	**27%**	26%
Expected tax benefit	**(617,167)**	(646,124)
Increase/(decrease) in taxes resulting from:		
— Non-deductible expenses	**61,593**	2,756
— Change in unrecognized deferred tax assets	**556,350**	1,095,569
— Change in enacted tax rate	**(776)**	(425,605)
— Others	**—**	(26,596)
Income tax expense	**—**	—

During the year ended December 31, 2016, the blended statutory tax rate was 27% (2015: 26%). The Alberta provincial tax rate increased from 10% to 12%, effective from July 1, 2015.

The components of unrecognized deferred tax assets are as follows:

	As at December 31,	
	2016	2015
	C$	C$
Deferred tax assets have not been recognized in respect of the following temporary differences:		
Property, plant and equipment and E&E assets	**24,114,130**	20,710,018
Decommissioning liabilities	**1,708,048**	1,764,990
Non-capital losses and others	**—**	1,286,611
Total	**25,822,178**	23,761,619

At December 31, 2016, the Company had approximately C$108.6 million of available or unused tax deductions. The company has recognized a deferred tax asset on C$96,097 of its PP&E and E&E assets to offset the deferred tax liability related to financing costs.

20 Directors' Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

Year ended December 31, 2016

	Directors' fees C$	Salaries, allowances and benefits in kind C$	Discretionary bonuses C$	Retirement scheme contributions C$	Sub-Total C$	Share-based payments C$	Total C$
Executive director							
Le Bo	–	394,167	–	2,544	396,711	–	396,711
Non-executive director							
Yuan Jing	–	–	–	–	–	–	–
Independent non-executive directors							
Richard Dale Orman (appointed on February 26, 2016)	83,334	–	–	–	83,334	–	83,334
Bryan Daniel Pinney (appointed on February 26, 2016)	83,334	–	–	–	83,334	–	83,334
Peter David Robertson (appointed on February 26, 2016)	83,334	–	–	–	83,334	–	83,334
	250,002	394,167	–	2,544	646,713	–	646,713

During the year ended December 31, 2016, there was no amount paid or payable by the Company to the directors or any of the five highest paid individuals as set out in note 21 below as an inducement to join or upon joining the Company or as compensation for loss of office. And there was no arrangement under which a director has waived or agreed to waive any remuneration during the year ended December 31, 2016.

Year ended December 31, 2015

	Directors' fees C$	Salaries, allowances and benefits in kind C$	Discretionary bonuses C$	Retirement scheme contributions C$	Sub-Total C$	Share-based payments C$	Total C$
Executive director							
Le Bo	–	430,000	–	2,480	432,480	–	432,480
Non-executive director							
Yuan Jing	–	–	–	–	–	–	–
	–	430,000	–	2,480	432,480	–	432,480

21 Individuals with Highest Emoluments

Of the five individuals with the highest emoluments, one of them was a director (Le Bo) during both the years ended December 31, 2016 and 2015, whose emolument is disclosed in note 20. The aggregate of the emoluments in respect of the other four individuals are as follows:

	Year ended December 31,	
	2016	2015
	C$	C$
Salaries and other emoluments	**782,333**	928,060
Termination pay	**—**	75,000
Share-based compensation	**64,000**	—
Retirement scheme contributions	**10,177**	9,920
	856,510	1,012,980

The emoluments of the above four individuals with the highest annual emoluments are within the following bands:

	Year ended December 31,	
	2016	2015
	Number of individuals	Number of individuals
Hong Kong dollars		
Nil–1,000,000	**1**	—
1,000,001–1,500,000	**2**	2
1,500,001–2,000,000	**1**	1
2,000,001–2,500,000	**—**	1
2,500,001–3,000,000	**—**	—
3,500,001–4,000,000	**—**	—
4,500,001–5,000,000	**—**	—

22 Loss per Share

The calculation of basic loss per share is based on the loss of C$2,285,804 and C$2,485,093 attributable to the owners of the Company for each of the years ended December 31, 2016 and 2015 respectively and the deemed weighted average of 208,606,006 and 204,430,842 common shares in issue for the years ended December 31, 2016 and 2015 respectively, calculated as follows:

	Year ended December 31,	
Weighted average number of common shares	**2016 Number of shares**	2015 Number of shares
Issued common shares as at the beginning of the year	**206,495,226**	204,345,226
Effect of new shares issued	**2,110,778**	547,122
Effect of shares repurchased	**—**	(461,506)
Weighted average number of common shares at the end of the year	**208,606,004**	204,430,842

Class B and Class C common shares are non-voting common shares but they were otherwise identical to Class A common shares for the years ended December 31, 2016 and 2015 with respect to dividend entitlement. Thus, the total number of Class A, Class B and Class C common shares is adopted as the denominator in the calculation of basic loss per share and loss per share amounts are the same for each of Class A, Class B and Class C common shares for the years ended December 31, 2016 and 2015.

There were no dilutive potential ordinary shares for the years ended December 31, 2016 and 2015 and therefore, diluted loss per share is the same as the basic loss per share.

23 Related Party Transactions

(a) Transactions with key management personnel

Key management compensation for the years ended December 31, 2016 and 2015 totalled $1,185,280 and $1,238,000, respectively.

(b) Transactions with other related parties

Transactions during the year ended December 31, 2016:

The Company settled C$156,283 of withholding tax on behalf of JLHY in 2015 relating to the repurchase of common shares, and this amount is included in accounts receivable (see note 9) and remained outstanding as at December 31, 2015 and December 31, 2016. This amount was fully settled in February 2017.

In January 2016, the Company issued 1,687,962 (pre-share split: 843,981) Class C common shares at a price of C$1.00 (pre-share split: C$2.00) per share to individual investors for proceeds totaling C$1,687,962, among which C$552,037 of cash proceeds from the new shares issuing was transferred from JLHY (collected by JLHY from the individual shareholders) to the Company in December 2015 (see note 14). The payment of the remaining C$1,135,925 of the new shares issuing proceeds was received during the year ended December 31, 2016.

23 Related Party Transactions (Continued)

(b) Transactions with other related parties (Continued)

Transactions during the year ended December 31, 2015:

In February 2015, the Company repurchased 500,000 (pre-share split: 250,000) Class C common shares at a price of C$1.00 (pre-share split: C$2.00) per share from JLHY.

24 Financial Instruments and Risk Management

Overview

The Company has exposure to credit risk, liquidity and market risk from its use of financial instruments. This note presents information about the Company's exposure to each of the risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from purchasers of the Company's crude oil and natural gas, joint venture partners and the counterparties to financial derivative contracts. As at December 31, 2016, the Company's accounts receivables consisted of C$3,069,420 (December 31, 2015: C$1,326,217) due from purchasers of the Company's crude oil and natural gas and C$158,635 (December 31, 2015: C$971,531) of other receivables (see note 9). As at December 31, 2016, 51.1% (December 31, 2015: 74.9%) of trade receivables was due from the Company's largest customer respectively, and 94.2% (December 31, 2015: 82.3%) of trade receivables was due from the Company's three largest customers respectively.

Receivables from purchasers of the Company's crude oil and natural gas when outstanding are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large, credit worthy petroleum marketers. Financial derivative contracts are only entered into with credit worthy institutions. Joint venture receivables when outstanding are typically collected within one to four months of the joint venture bill being issued to the partner.

The carrying amount of accounts receivable and cash balances in excess of guaranteed minimum amounts represents the maximum credit exposure. The Company has determined that no allowance for doubtful accounts was necessary as at December 31, 2016. The Company has also not written-off any material receivables during the years ended December 31, 2016. There are no material financial assets that the Company considers past due and at risk of collection. As at December 31, 2016, C$3,054,983 (December 31, 2015: C$1,311,734) respectively of the trade receivables are less than 90 days old.

24 Financial Instruments and Risk Management (Continued)

Overview (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company utilizes prudent cash and debt management to mitigate the likelihood of encountering difficulties in meeting its financial obligations. The Company is not averse to maintaining a higher ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. The Company will also attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

The current challenging economic climate may lead to further adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate profits in the future. Based on current available information, management expects to comply with all financial covenants during the year ended December 31, 2016. In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging. Due to this volatile economic environment, it is possible that the Company could breach the covenants noted within its credit facility agreement (see note 12) in fiscal 2017 or future periods. If a covenant violation does occur, this will represent an event of default under the facility and the lender has the right to demand repayment of all amounts owed under the facility.

The following are the contractual maturities of financial liabilities:

	As at December 31, 2016			
	Total C$	**1 year C$**	**1–3 years C$**	**3–5 years C$**
Accounts payable and accrued liabilities	**3,457,229**	**3,457,229**	**—**	**—**
Bank loan	**35,622,328**	**—**	**35,622,328**	**—**
Total	**39,079,557**	**3,457,229**	**35,622,328**	**—**

	As at December 31, 2015			
	Total C$	1 year C$	1–3 years C$	3–5 years C$
Accounts payable and accrued liabilities	2,246,728	2,246,728	—	—
Bank loan	45,580,135	—	45,580,135	—
Total	47,826,863	2,246,728	45,580,135	—

24 Financial Instruments and Risk Management (Continued)

Overview (Continued)

(c) Market risk

Market risk is the risk that changes in market metrics, such as commodity prices, foreign exchange rates and interest rates that will affect the Company's valuation of financial instruments, the debt levels of the Company, as well as its profit and cash flow from operations. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for crude oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand. The Company may utilize commodity contracts as a risk management technique to mitigate exposure to commodity price volatility.

The Company did not enter into any financial derivatives during the year ended December 31, 2016.

Interest rate risk

As at December 31, 2016, the Company was exposed to changes in interest rates with respect to its bank loans. As at December 31, 2016, a one percent change in the prevailing interest rate for its bank loans would result in an estimated annual change to net income of C$356,223 (December 31, 2015: C$455,800).

(d) Capital management

The Company's general policy is to maintain an appropriate capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Company's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations; to maintain a capital structure that allows the Company to favor the financing of its growth strategy using internally-generated cash flow and its debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying crude oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, bank debt, and working capital. To assess capital and operating efficiency and financial strength, the Company continually monitors its net debt.

The Company has not paid nor declared any dividends since its inception.

24 Financial Instruments and Risk Management (Continued)

Overview (Continued)

(d) Capital management (Continued)

The following is the capital structure of the Company:

	As at December 31,	
	2016	2015
	C$	C$
Bank loan[1]	**35,622,328**	45,580,135
Net working capital	**(5,122,178)**	(6,922,943)
Net debt	**30,500,150**	38,657,192
Shareholders' equity	**51,210,567**	51,837,116
Total capital	**81,710,717**	90,494,308

Note:

(1) This amount only includes the actual drawdown from the credit facility.

25 Transaction Costs

	Year ended December 31,	
	2016	2015
	C$	C$
Transaction costs	**2,980,561**	542,081

During the year ended December 31, 2015 the Company initiated a process to become a listed entity on The Stock Exchange of Hong Kong Limited. The costs associated with the issuance of new equity were recorded as deferred financing costs (see note 9) whereas costs associated with the listing were expensed as transaction costs. On March 10, 2017, the Company successfully listed on the Stock Exchange of Hong Kong and the Company issued 69,580,000 new shares at a price of HK$3.16 per share (C$0.54 per share), resulting in gross proceeds of HK$220 million (approximately C$38 million). The costs associated with the issuance of new equity are estimated at approximately C$3 million and therefore the net amount to be recorded as share capital is estimated to be approximately C$35 million. The deferred financing costs were reclassified against share capital upon issuance of the new shares in March 2017 and the Company has estimated further transactions costs have been incurred in fiscal 2017 totalling approximately C$3 million which will be expensed in fiscal 2017.

26 Commitments

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business. In October 2011, the Company entered into a lease for its office premise for a term starting October 2011 to December 2017. The average cost of the lease is approximately C$46,875 per month. Office premise lease costs include an estimate of the Company's share of operating costs for its office premises for the duration of the lease term. The Company entered into a lease agreement for a compressor and the lease term is from September 8, 2012 to September 7, 2017 requiring monthly lease payment of C$12,650. The Company entered into a firm service transportation agreement commencing November 1, 2013 to October 31, 2026 (the firm service fee varies and subject to review by the counter-party on an annual basis). The amounts represented below for the transportation service commitment fee is based on management's best estimate.

	Total C$	Less than 1 year C$	1–3 years C$	4–5 years C$	After 5 years C$
As at December 31, 2016					
Office premise lease	**562,496**	**562,496**	**–**	**–**	**–**
Lease of compressors	**113,850**	**113,850**	**–**	**–**	**–**
Transportation commitment[1]	**52,848,344**	**1,176,188**	**10,648,266**	**13,241,349**	**27,782,541**
Total contractual obligations	**53,524,690**	**1,852,534**	**10,648,266**	**13,241,349**	**27,782,541**

Note:

(1) As the average gas transportation demand will be 32.4 MMcf/d and 38.9 MMcf/d in 2017 and 2018 respectively based on Proved plus Probable Reserves, and 45.4 MMcf/d in 2019 based on Proved plus Probable Reserves and Best Estimate Unrisked Contingent Resources under the Company's three-year development plan, the Company have been assigned FT-R service in NGTL for 18.6 MMcf/d, 65.0 MMcf/d on average for 2017 and 2018 respectively and 110.0 MMcf/d for 2019. Based on management's best estimate, the transportation service commitment fee in respect of the excess assigned FT-R service in NGTL amounts to nil, C$1.5 million and C$3.7 million for 2017, 2018 and 2019, respectively. Based on its experience that the Company have been able to arrange for transfers of FT-R service available from other producers to accommodate its production schedule, the Company is of the view that if it does not have sufficient production to fill up the assigned transportation capacity, the Company will be able to transfer these excess capacities to other third-party producers in the NGTL System.

26 Commitments (Continued)

The Company also entered into the following fixed price physical commodity contracts to forward sell natural gas during the year ended December 31, 2016:

Commodity	Term	Quantity	Price
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$2.80 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$2.82 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$2.63 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$2.54 per GJ
Natural gas	January 1, 2017 to December 31, 2017	4,400 GJ/day	$2.51 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$3.00 per GJ
Natural gas	January 1, 2017 to December 31, 2017	2,000 GJ/day	$2.97 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$3.03 per GJ
Natural gas	January 1, 2017 to December 31, 2017	2,000 GJ/day	$2.94 per GJ
Natural gas	January 1, 2017 to December 31, 2017	1,000 GJ/day	$3.10 per GJ
Natural gas	January 1, 2018 to December 31, 2018	1,000 GJ/day	$2.79 per GJ
Natural gas	January 1, 2018 to December 31, 2018	1,000 GJ/day	$2.66 per GJ
Natural gas	January 1, 2018 to December 31, 2018	6,400 GJ/day	$2.64 per GJ

CORPORATE PROFILE

Board of Directors

Executive Director

Mr. Le Bo *(Chairman and Chief Executive Officer)*

Non-executive Director

Mr. Yuan Jing

Independent Non-executive Directors

Mr. Richard Dale Orman
Mr. Bryan Daniel Pinney
Mr. Peter David Robertson

Joint Company Secretaries

Mr. Bennett Ka-Ying Wong *(Gowling WLG (Canada) LLP)*
Ms. Chau Hing Ling *(FCIS, FCS)*

Authorised Representatives

Mr. Le Bo
Ms. Chau Hing Ling *(FCIS, FCS)*

Audit and Risk Committee

Mr. Bryan Daniel Pinney *(Chairman)*
Mr. Richard Dale Orman
Mr. Peter David Robertson

Remuneration Committee

Mr. Richard Dale Orman *(Chairman)*
Mr. Le Bo
Mr. Bryan Daniel Pinney

Nomination Committee

Mr. Le Bo *(Chairman)*
Mr. Bryan Daniel Pinney
Mr. Peter David Robertson

Auditor

KPMG LLP
3100-205 5th Avenue SW
Calgary, Alberta T2P 4B9
Canada

Registered Office

Suite 1600, 421–7th Avenue SW
Calgary, Alberta T2P 4K9
Canada

Headquarters and Principal Place of Business in Canada

2717, 308–4th Avenue SW
Calgary, Alberta T2P 0H7
Canada

Principal Place of Business in Hong Kong

Room 1901, 19/F
Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

Principal Bankers

National Bank of Canada
311-6 Avenue SW, Suite 1800
Calgary, Alberta T2P 3H2
Canada

Competent Persons

GLJ Petroleum Consultants Ltd.
4100, 400–3rd Avenue SW
Calgary, Alberta T2O 4H2
Canada

CORPORATE PROFILE

Compliance Adviser

Changjiang Corporate Finance (HK) Limited
Suite 1901, 19/F, Cosco Tower
183 Queen's Road Central
Central, Hong Kong

Legal Advisers

As to Hong Kong law

King & Wood Mallesons
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

As to Canadian law

Gowling WLG (Canada) LLP
Suite 1600, 421–7th Avenue SW
Calgary, Alberta
T2P 4K9
Canada

Principal Share Registrar and Transfer Office

Computershare Trust Company of Canada
Suite 600, 530–8th Avenue SW
Calgary Alberta T2P 3S8
Canada

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code and Board Lot

Stock Code: 3395
Board Lot: 1,000

Website

www.persta.ca

Place of Share Listing and Stock Code

The Stock Exchange of Hong Kong Limited: 3395

DEFINITIONS

In this annual report, unless the context otherwise requires the following words and expressions shall have the following meanings. Certain technical terms are explained in the section headed "Glossary of Technical Terms" in this annual report.

"164 Co"	1648557 Alberta Ltd., a company incorporated in Alberta with limited liability and one of our Controlling Shareholders, the issued voting shares of which are held as to 99.01% by Mr. Bo and as to 0.99% by The Bo Family Trust
"ABCA"	the Business Corporations Act (Alberta), as amended, supplemented or as otherwise modified from time to time
"Alberta"	the Province of Alberta, Canada
"Alberta Energy Regulator" or "AER"	a corporation established under the Responsible Energy Development Act (Alberta), with a mandate to provide for the safe, efficient, orderly and environmentally responsible development of Alberta's energy resources
"Annual and Special Meeting"	the annual and special meeting of our Company held on February 26, 2016
"Articles"	the articles of incorporation of the Company, as amended, supplemented, restated or as otherwise modified from time to time
"ASC"	the Alberta Securities Commission
"Aspen"	Aspen Investment Holdings Ltd., a company incorporated in Alberta with limited liability and one of our Controlling Shareholders, the issued voting shares of which are held as to 39.69% by 164 Co, 41.09% by JLHY and 19.22% by Liyuan
"Board"	the board of Directors
"Canada"	Canada, its territories, its possessions and all areas subject to its jurisdiction
"Canadian dollars" or "CAD" or "C$" or "CDN$"	Canadian dollars, the lawful currency of Canada
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Class A Shares"	the Class "A" Common Voting Shares in the capital of our Company (as so designated pursuant to our Articles prior to April 29, 2016), which are re-designated as Common Shares on April 29, 2016
"Class B Shares"	the Class "B" Common Non-Voting Shares in the capital of our Company (as so designated pursuant to our Articles prior to April 29, 2016), which are converted for Common Shares on a 1:1 basis on April 29, 2016

DEFINITIONS

"Class C Shares"	the Class "C" Common Non-Voting Shares in the capital of our Company (as so designated pursuant to our Articles prior to April 29, 2016), which are converted for Common Shares on a 1:1 basis on April 29, 2016
"Common Shares" or "Share(s)"	the common shares of no par value in the capital of our Company (each as so designated pursuant to our Articles as at the Listing Date)
"Company", "our Company", "we", "our", "us" or "Persta"	Persta Resources Inc., a company incorporated with limited liability under the laws of Alberta on March 11, 2005
"Competent Evaluator", "Competent Person" or "GLJ"	GLJ Petroleum Consultants Ltd., a competent person being a person that satisfies Rules 18.21 and 18.22 of the Listing Rules and a competent evaluator being a person undertaking valuations that satisfies Rule 18.23 of the Listing Rules, a limited liability company incorporated under the laws of Alberta and an Independent Third Party
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to 164 Co, Aspen, JLHY, Mr. Jing, Liyuan, Mr. Bo and Ms. Hou
"Crown"	Her Majesty in right of Alberta
"Crown Lease"	a lease of rights to crude oil or natural gas or both, issued by the Government of Alberta pursuant to applicable legislation
"Director(s)"	director(s) of our Company
"GAAP"	generally accepted accounting principles
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IFRS"	International Financial Reporting Standards, as issued by the International Accounting Standards Board
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is independent of and not connected with (within the meaning of the Listing Rules) any director, chief executive, substantial shareholder of our Company or any of their respective associates

"IPO"	initial public offering
"JLHY"	Ji Lin Hong Yuan Trade Group Limited (吉林省弘原經貿集團有限公司), a company incorporated in the PRC with limited liability and one of our Controlling Shareholders, 60% of the equity interest of which is held by Mr. Jing
"Listing"	the listing of the Shares on the Main Board
"Listing Date"	March 10, 2017, on which the Shares are listed and from which dealings in the Shares are permitted to take place on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Liyuan"	Changchun Liyuan Investment Co. Ltd. (長春市麗源投資有限公司), a company incorporated in the PRC with limited liability and one of our Controlling Shareholders, 98% of the equity interest of which is held by JLHY
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Mr. Bo"	Mr. Le Bo (伯樂), our President, Chairman of our Board, Chief Executive Officer, our executive Director and one of our Controlling Shareholders
"Mr. Jing"	Mr. Yuan Jing (景元), our non-executive Director and one of our Controlling Shareholders
"Ms. Hou"	Ms. Jing Hou (侯靜), also Mrs. Bo, spouse of Mr. Bo and one of our Controlling Shareholders
"NGTL"	NOVA Gas Transmission Ltd., a wholly-owned subsidiary of TransCanada Corporation, a company listed on the Toronto Stock Exchange (TSX: TRP) and the New York Stock Exchange (NYSE: TRP), an Independent Third Party
"NGTL System"	a pipeline system that receives, transports and delivers natural gas within Alberta and British Columbia in Canada operated by NGTL
"PNG Licence"	a petroleum and natural gas licence pursuant to which the Crown grants the holder the right to explore for and recover petroleum or natural gas resources, or both, pursuant to applicable legislation
"Properties"	the Leased Properties, Crown Leases and PNG Licences
"Prospectus"	the prospectus of the Company dated February 28, 2017

DEFINITIONS

"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shareholder(s)"	the holder(s) of the Share(s)
"Shareholders' equity"	the Shares, retained earnings and other accumulated comprehensive income
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"The Bo Family Trust"	a discretionary trust established on December 23, 2011 under the laws of Alberta, the trustees of which are Mr. Bo and Ms. Hou and the beneficiaries of which include family members of Mr. Bo and Ms. Hou
"WCSB"	the Western Canadian Sedimentary Basin
"%"	per cent

GLOSSARY OF TECHNICAL TERMS

"1P"	Proved Reserves
"2P"	Proved plus Probable Reserves
"3P"	Proved plus Probable plus Possible Reserves
"condensate"	a low-density, high API gravity liquid hydrocarbon phase that generally occurs in association with the production of natural gas
"Contingent Resources"	quantities of crude oil estimated, as at a given date, to be potentially recoverable from known accumulations but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies
"crude oil"	the portion of petroleum that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric conditions of pressure and temperature
"developed non-producing Reserves"	Reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown
"developed producing Reserves"	Reserves that are expected to be recovered from completion intervals open at the time of the estimate. These Reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty
"development"	the phase in petroleum operations that occurs after exploration has proven successful, and before full-scale production
"development well"	a well drilled inside the established limits of a natural gas and oil reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive
"Devonian"	the geologic period and system of the Paleozoic era spanning from 416 to 359.2 million years ago
"drilling location"	a location identified by the Competent Person in a project associated with a potential accumulation that is sufficiently well defined as a viable drilling target to move a project toward commercial production
"E&E"	exploration and evaluation
"E&P"	exploration and production

GLOSSARY OF TECHNICAL TERMS

"economic limit"	the limit at which the net operating cash flows from a project, which may be an individual well, lease, or entire field, are negative
"EUR" or "estimated ultimate recovery"	an approximation of the quantity of oil or gas that is potentially recoverable or has already been recovered from a reserve or well
"exit production"	the rate of production of oil and/or gas as at the end of the relevant period
"exploration"	the initial phase in petroleum operations that includes generation of a prospect or play or both, and drilling of exploration wells
"geological and geophysical study" or "G&G Study"	a study of available geology and seismic, magnetic, gravity, and log data to learn or evaluate subsurface geology characteristic and hydrocarbon potential
"gross Reserves"	the working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests
"high estimate"	at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate
"horizontal drilling"	a drilling technique used in certain formations where a well is drilled vertically to a certain depth, after which the drill path builds to 90 degrees until it is in the target formation and continues horizontally for a certain distance
"IP" or "initial production"	the average amount of oil and/or gas produced in the first 24 hours of a well
"Junior Assets"	the oil and gas assets of the Company which are yet to be developed as listed in the section headed "Business — Our Key Assets — Junior Assets" in this annual report
"light crude oil"	crude oil normally measured at 30 API gravity or lighter
"low estimate"	at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate
"LNG"	liquefied natural gas
"LPG"	liquefied petroleum gas
"NGLs"	natural gas liquids
"payout"	the point at which all costs of leasing, exploring, drilling and operating have been recovered from production
"PNG rights"	the right to produce petroleum and natural gas from the subsurface formation

GLOSSARY OF TECHNICAL TERMS

"Possible Reserves"	those quantities of natural gas and crude oil which by analysis of geosciences and engineering data are less likely to be recoverable than probable reserves
"Probable Reserves"	those quantities of natural gas and crude oil which by analysis of geosciences and engineering data are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves
"producing well"	a well currently in production, or if shut in, previously in production and with reasonable certainty of resumption of production
"production"	the phase in petroleum operations that occurs after exploration and development phases and during which hydrocarbons are drained from an oil or gas reservoir
"Prospective Resources"	those quantities of natural gas and crude oil estimated, as at a given date, to be potentially recoverable from undiscovered accumulations which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoir and under defined economic conditions, operating methods and government regulations
"Proved Reserves"	those quantities of natural gas and crude oil, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations
"PRMS"	the Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007, as amended from time to time
"PV10%"	the present value of estimated future net revenues before income tax to be generated from the production of Proved Reserves and discounted using an annual discount rate of 10%
"Reserves"	those quantities of natural gas and crude oil anticipated to be commercially recoverable by the application of development projects to known accumulations from a given date forward under defined conditions. Reserves are classified according to the degree of certainty associated with the estimates
"reservoir"	means a porous and permeable underground rock formation containing a natural accumulation of natural gas and crude oil that is confined by impermeable rock or water barriers, is separate from other reservoirs and is characterized by a single pressure system

GLOSSARY OF TECHNICAL TERMS

"Resources"	Contingent Resources and/or Prospective Resources
"section"	an area of land measuring 1 mile long by 1 mile wide or 640 acres
"seismic"	a method by which the physical attributes in the outer rock shell of the earth are determined by measuring, with a seismograph, the rate of transmission of shock waves through the various rock formations
"seismic data"	detailed information obtained by carrying out seismic work
"Spirit River Group"	a group of formations in WCSB which includes the Wilrich and Mountain Park formations
"working interest"	a proportional interest in a lease granting its owner the right to explore, develop and produce resources from a property and to receive revenues in proportion to the working interest over the property and incur costs in proportion to the working interest over the property
"WTI"	West Texas Intermediate, a grade of crude oil delivered at Cushing Oklahoma used as benchmark in oil pricing

PERSTA
Resources Inc.