
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Global Offering (without taking into account any Shares to be allocated and issued upon the exercise of the Over-Allotment Option), 164 Co, JLHY, Mr. Bo, Mr. Jing, Liyuan, Aspen and Ms. Hou (being spouse of Mr. Bo) will become a group of our Controlling Shareholders acting in concert and will jointly hold approximately 67.30% of the total number of issued Shares of our Company. For details regarding the shareholding interest of our Controlling Shareholders, please refer to the section headed “Substantial Shareholders” in this Prospectus.

Our Controlling Shareholders have confirmed that none of them and their respective associates is interested in any business which competes or is likely to compete, directly or indirectly with the business of our Company.

Among our Controlling Shareholders, Mr. Bo is the executive Director and Mr. Jing is the non-executive Director. For further details, please refer to the section headed “Directors and Senior Management” in this Prospectus.

Unanimous Shareholders Agreement

On December 18, 2015, 164 Co, JLHY, Mr. Bo, Mr. Jing and Aspen entered into the Unanimous Shareholders Agreement, pursuant to which they confirmed, among other things, the existence of 164 Co, JLHY, Mr. Bo and Mr. Jing’s acting in concert arrangements in the past, in which 164 Co, JLHY, Mr. Bo and Mr. Jing had acted in concert as to previous votings in the shareholders’ and board meetings of our Company and there was no prior dispute between 164 Co, JLHY, Mr. Bo and Mr. Jing in relation to previous votings in various shareholders’ meetings and board meetings of our Company and had not encountered any material disputes.

Furthermore, 164 Co, JLHY, Mr. Bo, Mr. Jing and Aspen confirmed in the Unanimous Shareholders Agreement that they will act in concert as to voting in the shareholders’ and board meetings of our Company and/or Aspen. If they are not able to reach an agreement after full communication and consultation, the views of 164 Co and Mr. Bo shall prevail and JLHY, Mr. Jing and Aspen shall consent to the views of 164 Co and Mr. Bo. The Unanimous Shareholders Agreement may be terminated by all the parties thereunder in writing.

First Supplemental Unanimous Shareholders Agreement

On April 29, 2016, JLHY, Liyuan, 164 Co, Mr. Bo, Mr. Jing and Aspen entered into the First Supplemental Unanimous Shareholders Agreement supplemental to the Unanimous Shareholders Agreement pursuant to which Liyuan was included as a party thereto, and pursuant to which JLHY, Liyuan, 164 Co, Mr. Bo and Mr. Jing (the “Parties”) confirmed, among other things, (i) the Parties’ shareholding in Aspen; (ii) the Parties had acted in concert as to previous votings and there was no dispute as to previous voting in the shareholders’ and board meetings of our Company and; (iii) the Parties will act in concert as to voting in the shareholders’ and board meetings of our Company and/or Aspen from the date of the Unanimous Shareholders Agreement.

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For details of our Controlling Shareholders, please refer to the sections headed “Corporate Structure and History — Our Controlling Shareholders” and “Directors and Senior Management” in this Prospectus.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors consider that our Company is capable of carrying on our business and is operationally and financially independent from our Controlling Shareholders and their close associates after Listing for the following reasons:

Management Independence

Our management and operational decisions are made by our Board and management. Our Board comprises one executive Director, one non-executive Director and three independent non-executive Directors. Although Mr. Bo and Mr. Jing hold directorships in our Company, we consider that our Board and management will function independently from our Controlling Shareholders because:

- (a) each Director is aware of his fiduciary duties and obligations as a Director which require, amongst others, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interests. Please refer to the section headed “Directors and Senior Management — Directors’ Conflicts of Interests” for details of such obligations;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant meeting of our Board in respect of such transactions though he/they may be counted in the quorum. Our Company has also adopted certain corporate governance measures to avoid any potential conflict of interest between our Company and our Controlling Shareholders, details of which are set out in the paragraph headed “Corporate Governance Measures” in this section;
- (c) with three independent non-executive Directors out of a total of five Directors in our Board, there will be a sufficiently robust and independent voice within our Board to counter-balance any situation involving a conflict of interest and protect the interests of our independent Shareholders; and
- (d) all our management members are independent from our Controlling Shareholders. They have substantial experience in the industry we are engaged in and have served our Company for a period of time during which they have undertaken management supervisory responsibilities in our business and demonstrated their capability of discharging their duties independently from our Controlling Shareholders.

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Operational Independence

Our Company operates our business independently. During the Track Record Period, our Company had in place the following arrangements:

- (a) we have established our own organizational structure comprising individual departments, each with specific areas of responsibilities;
- (b) we have not shared our operational resources, such as suppliers, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their associates;
- (c) we are not reliant on trademarks, know-how and other intellectual property rights owned by our Controlling Shareholders;
- (d) we are the holder of all relevant licences material to the operation of our business and have sufficient equipment and employees to operate our business independently;
- (e) we have our own administrative and internal control procedures and corporate governance infrastructure; and
- (f) all properties used as our principal place of business and office premises are leased from Independent Third Parties by us.

Based on the above-mentioned arrangements, our Directors are of the view that our Company will be able to operate independently from our Controlling Shareholders.

Financial Independence

We have an independent financial and accounting system and make financial decisions according to our own business needs. Our Company has our own finance department with a team of independent financial staff to handle our Company's finance operations independently, and our Company does not share any finance functions and resources with our Controlling Shareholders.

During the Track Record Period, we had a shareholder's loan due to JLHY, one of our Controlling Shareholders. The shareholder's loan due to JLHY has been fully repaid as at the Latest Practicable Date. For more information about the shareholder's loan, please refer to the sections headed "Financial Information — Shareholder's Loan and Loans from Employees and Contractors" in this Prospectus and Note 12 (Bank and Other Debts) of the Accountants' Report set out in Appendix I to this Prospectus.

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In support of the general working capital of our Company, during the Track Record Period, our Company obtained a banking facility from Macquarie Bank under the Macquarie Bank Credit Agreement. The long-term credit facility, granted by Macquarie Bank, consists of a maximum of C\$100,000,000 revolving facility and a maximum of C\$100,000,000 term facility. The available level of credit is subject to a periodic review by the bank and may be adjusted for changes in reserves, commodity prices and other factors. Advances under the long-term credit facility bore interest at a variable rate of interest per annum equal to the greater of (i) the Canadian Dealer Offered Rate and (ii) 1%, plus a margin of (a) in the case of the revolving facility, 5.5%, and (b) in the case of the term facility, 7.0%.

The credit facility granted under the Macquarie Bank Credit Agreement are secured, amongst others, by our Company having further created a fixed charge against certain of our PNG Licences in favor of Macquarie Bank and by a limited recourse guarantee and a share pledge provided by our Controlling Shareholder, Aspen, in respect of the Class A Shares in the share capital of our Company held by Aspen (the “**Aspen Security**”). It also imposes certain events triggering a default, amongst others, if Mr. Bo or Mr. Pingzai Wang ceases to be a Director or an officer of our Company. For more information about the financing of our Company, please refer to the section headed “Financial Information — Indebtedness — Bank Loan” in this Prospectus.

The Aspen Security was provided in favor of Macquarie Bank simply to secure financing on more favorable terms and did not compromise our ability to operate financially independently of our Controlling Shareholders and was released prior to the Listing. The release of the Aspen Security will not result in material changes in the interest rate and the amount of unutilised banking facility granted under the Macquarie Bank Credit Agreement.

Notwithstanding the above arrangement, our Board believes that our Company is able to operate financially independently of our Controlling Shareholders for the following reasons:

- (1) *A track record of fundraising on a stand-alone basis without any credit support from our Controlling Shareholders*

Our Company was able to, and intends to continue to, secure bank facilities from banks and other financial institutions without any credit support, guarantees or security from our Controlling Shareholders. Historically, our Company has had strong bank support on a stand-alone basis. During the Track Record Period, credit facilities were also made available to our Company by a commercial bank and a private lender of C\$30 million and C\$8 million respectively as at December 31, 2013, all Independent Third Parties, on a stand-alone basis without any security, guarantee or credit support by our Controlling Shareholders. In addition, before entering into the Macquarie Bank Credit Agreement, our Company had also negotiated with another commercial bank for a similar long-term credit facility, to be made available without provision of any security, guarantee or credit support by our Controlling Shareholders. Our Company did not

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proceed to obtain the loan from that commercial bank as we considered the terms offered by that bank to be less favorable than those offered by Macquarie Bank. For more information regarding the bank loan, please refer to the section headed “Financial Information — Indebtedness — Bank Loan” of this Prospectus.

After the creation of the Aspen Security under the Macquarie Bank Credit Agreement, we have entered into a term sheet with a Canadian-listed financial institution, an Independent Third Party. Upon satisfactory completion of due diligence review of our business and financial performance, this financial institution provided our Company a legally binding commitment letter pursuant to which the financial institution will provide to our Company a term loan facility, in an aggregate sum of C\$45 million (the “**New Facility**”) (which will comprise a Tranche A to a maximum of C\$30 million at an interest rate of 9% per annum for a term of 36 months and a Tranche B of C\$15 million at an interest rate of 12% for a term of 84 months) which will be secured by a first charge over our Company’s all current and after-acquired personal property. The term loan facility will also contain certain covenants, including financial covenants related to our working capital, debt coverage and AER Licensee Liability Rating. The New Facility is being considered by our Company as one of the financing options. In any event, the New Facility will be made available to our Company on the basis of our own creditworthiness on a stand-alone basis, without any credit or security support from any of our Controlling Shareholders, which can then be used for the full repayment and discharge of our obligations under the Macquarie Bank Credit Agreement. This reflects our business performance and financial position and outlook continued to be steady and growing in the right direction. This further clearly demonstrates that our Company is able to operate financially independently from our Controlling Shareholders, including Aspen, by obtaining new financing from Independent Third Parties on a standalone basis.

(2) *Strong financial position after Listing*

We are strongly of the view that we, at and after Listing, will be in a strong financial position and be financially independent from the Controlling Shareholders. Given that we are a mineral company with assets in development and production, the Directors believe the status of our Company as a public company after Listing and the ability of our three-year development plan to produce significant future cash flows and profits will enhance our ability to raise funds through the debt and equity capital markets as well as by way of project financing, all on a standalone basis, if necessary.

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(3) *Viability of our business without the financial support of the Controlling Shareholders*

Our business will be viable without the financial support by its Controlling Shareholders. Upon Listing, our Company, solely funded by the net proceeds of the Global Offering and without the need for further debt or equity financing, will have sufficient financial resources to commence the first stage of our three-year development plan and put the first 3 new wells into production in early 2017. It is expected these 3 new wells will generate positive cash flow once they are put into production in early 2017, which will enable our Company to reduce our bank borrowings in accordance with our working capital requirements and development plan. As our Company can finance a significant portion of our three-year development plan by the net proceeds of the Global Offering and the operating cash inflow generated from our producing wells, we strongly believe that we will not have to rely on further equity fundraising exercise or bank borrowings of considerable scale to finance the further development of the wells and bring them to the stage of commercial production. It is also well noted that the Directors are able to make the working capital statement set out in the section headed “Financial Information” in the prospectus without reliance on any financing, security or other form of financial support from the Controlling Shareholders.

As at the Latest Practicable Date, (i) we did not have any outstanding loans or borrowings from any of our Controlling Shareholders or any of their respective associates; and (ii) there were no bank borrowings for which any of our Controlling Shareholders has provided personal guarantee. As such, our Company is satisfied with our capability to carry on our business financially independently of our Controlling Shareholders. Our Directors further confirm that we will not rely on our Controlling Shareholders for financing after the Listing as we expect that our working capital will be funded by our operating income and bank borrowings.

DEED OF NON-COMPETITION

In order to avoid any future competition between our Company and our Controlling Shareholders, each of our Controlling Shareholders has executed the Deed of Non-competition with our Company (for our Company itself and for the benefit and on behalf of our subsidiaries) on January 17, 2017. Pursuant to the Deed of Non-competition, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to our Company that, during the period that the Deed of Non-competition remains effective, (i) he/it/she shall not, and shall procure that his/its/her associates (except through his/its/her interests in our Company) shall not, directly or indirectly, develop, acquire, participate, hold any right or interest in or invest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the business engaged by our Company from time to time in Alberta, Canada or any other area in which our Company carries on business; and (ii) support any person, company or entity that is not part of our Company to engage in any business which is in competition with or is likely to be in competition with the existing or future business carried on by our Company.

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

Our Company shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who shall not have any interest in such opportunity). Our relevant Controlling Shareholders and our other conflicting Directors (if any) shall abstain from participating in and voting at, though he/they may be counted as quorum, all meetings of the Board where there is a conflict of interest or potential conflict of interest (including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal).

The Deed of Non-competition is conditional upon the fulfilment of the following conditions:

- (i) the Listing Committee granting the approval for the listing of, and permission to deal in, our Shares; and
- (ii) the fulfilment of the conditions precedent under the Underwriting Agreements (including waiver of any conditions precedent by the Underwriters, if applicable) and the Underwriting Agreements not having been terminated.

If any of such conditions is not fulfilled on or before the date agreed between the Underwriters and our Company or the Underwriters and our Company have agreed to terminate the Underwriting Agreements thereafter, the Deed of Non-competition shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

The Deed of Non-competition shall terminate when (i) a Controlling Shareholder, whether individually or taken together with his/its/her associates, ceases to be interested in 30% (or such other figure as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the issued Shares; or (ii) the Shares cease to be listed and traded on the Stock Exchange (except for temporary trading halts or suspension of trading of our Shares on the Stock Exchange due to any reason).

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CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that he/it fully comprehends his/its obligations to act in the best interests of our Company and our Shareholders as a whole.

To avoid and manage potential conflicts of interest arising from the possible competing business of our Controlling Shareholders and to safeguard the interests of our independent Shareholders, our Company will implement the following measures:

- (a) our Controlling Shareholders will make an annual confirmation as to compliance with his/its undertaking under the Deed of Non-competition for inclusion in the annual report of our Company;
- (b) our Board is committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independence element on our Board which can effectively exercise independent judgment. Our Company has appointed three independent non-executive Directors. Our Directors believe that our independent non-executive Directors are of sufficient calibre, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide impartial and professional advice to protect the interests of our minority Shareholders. For further details of our independent non-executive Directors, please refer to the section headed “Directors and Senior Management” of this Prospectus;
- (c) our Company has appointed Changjiang Corporate Finance (HK) Limited as its compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and internal controls. For further details in relation to the appointment of compliance adviser, please refer to the paragraph headed “Directors and Senior Management — Compliance Adviser” in this Prospectus;
- (d) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (e) our independent non-executive Directors will, based on the information available to them, review on an annual basis (i) compliance with the Deed of Non-competition; and (ii) all the decisions taken in relation to whether to pursue new opportunities under the Deed of Non-competition; and
- (f) pursuant to the Code of Corporate Governance, our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at the costs of our Company.

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Our Company is expected to comply with the Code of Corporate Governance which sets out principles of good corporate governance in relation to, among others, Directors, the chief executive, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communication with our Shareholders. Our Company will state in our interim and annual reports whether we have complied with such code, and (if applicable) will provide details of, and reasons for, any deviation therefrom in the corporate governance reports attached to our annual reports and interim reports.