The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from the Company's Joint Reporting Accountants, KPMG LLP, Chartered Professional Accountants, Calgary, Canada, and KPMG, Certified Public Accountants, Hong Kong.

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

KPMG
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

February 28, 2017

The Directors
Persta Resources Inc.
Changjiang Corporate Finance (HK) Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Persta Resources Inc. (the "Company") comprising the statements of financial position as at December 31, 2013, 2014 and 2015 and September 30, 2016 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows, for each of the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (the "Financial Information"), for inclusion in the Prospectus of the Company dated February 28, 2017 (the "Prospectus").

The Company was incorporated in Canada on March 11, 2005 with limited liability under the Business Corporations Act (Alberta). Details of the corporate structure are explained in the section headed "Corporate Structure and History" in the Prospectus.

The Company has adopted December 31 as its financial year end date. During the Relevant Periods, the statutory financial statements of the Company were prepared in accordance with Canadian generally accepted accounting principles issued by the Canadian Accounting Standards Board or International Financial Reporting Standards ("IFRSs") issued by the International

Accounting Standards Board ("IASB"). These statutory financial statements of the Company were audited by KPMG LLP, Chartered Professional Accountants registered in Calgary, Canada ("KPMG Calgary").

The directors of the Company have prepared the financial statements for the Relevant Periods (the "Underlying Financial Statements") in accordance with IFRSs issued by the IASB. The Underlying Financial Statements for each of the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016 were audited by KPMG Calgary in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "IAASB").

The Financial Information has been prepared by the directors of the Company for inclusion in the Prospectus in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have not audited any financial statements of the Company in respect of any period subsequent to September 30, 2016.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Company as at December 31, 2013, 2014 and 2015 and September 30, 2016 and of the Company's financial performance and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Company comprising the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the nine months ended September 30, 2015, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A FINANCIAL INFORMATION OF THE COMPANY

1 Statements of profit or loss and other comprehensive income

		Year ended December 31,			Nine months ended September 30,	
	Section B Note	2013 C$	2014 C$	2015 C$	2015 C$ (Unaudited)	2016 C$
Revenue from crude oil and natural gas sales	*15*	23,497,049	32,423,867	16,079,598	12,319,780	15,151,255
Royalties		(3,715,390)	(5,294,650)	(1,071,698)	(1,639,001)	(1,102,947)
Net revenue		19,781,659	27,129,217	15,007,900	10,680,779	14,048,308
Operating costs		(5,055,775)	(5,556,029)	(3,636,433)	(2,752,298)	(4,468,369)
General and administrative costs		(2,857,929)	(3,135,459)	(2,330,164)	(1,609,116)	(2,029,788)
Depletion and depreciation	*8*	(9,373,697)	(6,976,787)	(4,596,103)	(3,485,693)	(5,513,038)
Impairment loss and write-offs on exploration and evaluation assets	*7*	(362,804)	(1,786,080)	(2,363,231)	(2,358,719)	(812,452)
Impairment losses and write-offs on property, plant and equipment	*8, 17*	(195,976)	(1,628,503)	(749,971)	(749,971)	—
Share-based compensation	*14*	—	(1,510,908)	—	—	(221,332)
Transaction costs	*25*	—	—	(542,081)	(60,799)	(2,260,123)
Profit/(loss) from operations		1,935,478	6,535,451	789,917	(335,817)	(1,256,794)
Other income		—	—	—	—	7,630
Finance expenses	*16*	(2,673,373)	(3,162,897)	(3,275,010)	(2,448,416)	(2,393,129)
Realized gain/(loss) on financial derivative instruments	*24*	84,085	(370,801)	—	—	—
(Loss)/profit before income taxes	*18*	(653,810)	3,001,753	(2,485,093)	(2,784,233)	(3,642,293)
Income taxes	*19*	—	—	—	—	—
(Loss)/profit and total comprehensive income for the year/period attributable to owners of the Company		(653,810)	3,001,753	(2,485,093)	(2,784,233)	(3,642,293)
(Loss)/earnings per share	*22*					
Basic and diluted		(14.27)	0.02	(0.01)	(0.01)	(0.02)

The accompanying notes form part of the Financial Information.

2 Statements of financial position

	Section B Note	As at December 31, 2013 C$	As at December 31, 2014 C$	As at December 31, 2015 C$	As at September 30, 2016 C$
ASSETS					
Non-current assets					
Exploration and evaluation assets	*7*	9,435,054	13,040,540	14,419,800	14,383,237
Property, plant and equipment	*8*	79,847,950	81,823,556	76,957,111	70,696,817
		89,283,004	94,864,096	91,376,911	85,080,054
Current assets					
Accounts receivable	*9*	2,864,269	4,526,062	2,297,748	3,687,670
Prepaid expenses and deposits	*9*	449,329	713,157	1,458,450	1,095,608
Cash and cash equivalents	*10*	—	4,974,910	5,413,473	3,215,362
		3,313,598	10,214,129	9,169,671	7,998,640
Total assets		92,596,602	105,078,225	100,546,582	93,078,694
LIABILITIES AND TOTAL EQUITY/(DEFICIENCY)					
Current liabilities					
Accounts payable and accrued liabilities	*11*	6,315,150	5,699,959	2,246,728	2,726,654
Bank indebtedness	*12*	1,831,820	—	—	—
Bank loan	*12*	30,350,000	—	—	—
Shareholders' loan	*12*	69,418,658	—	—	—
Other debts	*12*	9,277,000	—	—	—
		117,192,628	5,699,959	2,246,728	2,726,654
Net current (liabilities)/assets		(113,879,030)	4,514,170	6,922,943	5,271,986
Total assets less current liabilities		(24,596,026)	99,378,266	98,299,854	90,352,040

	Section B Note	As at December 31, 2013 C$	As at December 31, 2014 C$	As at December 31, 2015 C$	As at September 30, 2016 C$
Non-current liabilities					
Bank loan	*12*	—	45,921,480	44,697,748	38,656,146
Decommissioning liabilities	*13*	1,366,299	1,616,614	1,764,990	1,841,816
		1,366,299	47,538,094	46,462,738	40,497,962
Total liabilities		118,558,927	53,238,053	48,709,466	43,224,616
Total equity/(deficiency)					
Share capital	*14*	100	165,006,075	167,036,075	169,247,367
Common shares to be issued	*14*	—	—	552,037	—
Accumulated deficits		(25,962,425)	(113,165,903)	(115,750,996)	(119,393,289)
Total equity/(deficiency)		(25,962,325)	51,840,172	51,837,116	49,854,078
Total liabilities and total equity/ (deficiency)		92,596,602	105,078,225	100,546,582	93,078,694

The accompanying notes form part of the Financial Information.

3 Statements of changes in equity

	Section B Note	Common shares Class A	Common shares Class B	Common shares Class C	Common shares to be issued	Common shares	Accumulated deficits	Total equity/ (deficiency)
		C$	C$	C$	C$	C$	C$	C$
Balance as at January 1, 2013		10	5	85	—	—	(25,308,615)	(25,308,515)
Loss and total comprehensive income for the year		—	—	—	—	—	(653,810)	(653,810)
Balance as at December 31, 2013		10	5	85	—	—	(25,962,425)	(25,962,325)
Balance as at January 1, 2014		10	5	85	—	—	(25,962,425)	(25,962,325)
Profit and total comprehensive income for the year		—	—	—	—	—	3,001,753	3,001,753
New shares issued to settle debts and distribution to shareholders	*14(b)(i)*	—	15,198,622	136,787,600	—	—	(89,539,903)	62,446,319
New shares issued to employees and consultants	*14(b)(ii)*	—	3,648,248	—	—	—	—	3,648,248
New shares issued for cash	*14(b)(iii)*	—	—	12,080,112	—	—	—	12,080,112
Repurchase of shares	*14(b)(iv)*	—	(50,400)	(2,658,207)	—	—	(665,328)	(3,373,935)
Balance as at December 31, 2014		10	18,796,475	146,209,590	—	—	(113,165,903)	51,840,172
Balance as at January 1, 2015		10	18,796,475	146,209,590	—	—	(113,165,903)	51,840,172
Loss and total comprehensive income for the year		—	—	—	—	—	(2,485,093)	(2,485,093)
New shares issued for cash	*14(b)(vi)*	—	—	2,480,000	—	—	—	2,480,000
Common shares to be issued	*14(b)(viii)*	—	—	—	552,037	—	—	552,037
Repurchase of shares	*14(b)(vii)*	—	—	(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

	Section B Note	Common shares Class A	Common shares Class B	Common shares Class C	Common shares to be issued	Common shares	Accumulated deficits	Total equity/ (deficiency)
		C$	C$	C$	C$	C$	C$	C$
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 income for the period		—	—	—	—	—	(3,642,293)	(3,642,293)
New shares issued	*14(b)(viii)*	—	523,330	1,687,962	(552,037)	—	—	1,659,255
Share conversion and split	*14(b)(ix)*	(10)	(19,319,805)	(149,927,552)	—	169,247,367	—	—
Balance as at September 30, 2016		—	—	—	—	169,247,367	(119,393,289)	49,854,078
(Unaudited)								
Balance as at January 1, 2015		10	18,796,475	146,209,590	—	—	(113,165,903)	51,840,172
Loss and total comprehensive income for the period		—	—	—	—	—	(2,784,233)	(2,784,233)
New shares issued for cash	*14(b)(vi)*	—	—	500,000	—	—	—	500,000
Repurchase of shares	*14(b)(vii)*	—	—	(400,000)	—	—	(100,000)	(500,000)
Balance as at September 30, 2015		10	18,796,475	146,309,590	—	—	(116,050,136)	49,055,939

The accompanying notes form part of the Financial Information.

4 Statements of cash flows

	Section B Note	Year ended December 31, 2013 C$	Year ended December 31, 2014 C$	Year ended December 31, 2015 C$	Nine months ended September 30, 2015 C$ (Unaudited)	Nine months ended September 30, 2016 C$
Operating activities						
(Loss)/profit for the year/period		(653,810)	3,001,753	(2,485,093)	(2,784,233)	(3,642,293)
Adjustments for:						
Depletion and depreciation	*8*	9,373,697	6,976,787	4,596,103	3,485,693	5,513,038
Amortization of debt issue costs	*12*	—	70,000	317,613	238,283	236,491
Accretion expense	*13*	35,724	22,155	20,403	14,869	14,077
Share-based compensation	*14*	—	1,510,908	—	—	221,332
Impairment loss and write-offs on exploration and evaluation assets	*7*	362,804	1,786,080	2,363,231	2,358,719	812,452
Impairment losses and write-offs on property, plant and equipment	*8*	195,976	1,628,503	749,971	749,971	—
Funds from operations		9,314,391	14,996,186	5,562,228	4,063,302	3,155,097
Changes in non-cash working capital	*10(b)*	(622,299)	(76,786)	(198,628)	218,578	729,670
Net cash generated from operating activities		8,692,092	14,919,400	5,363,600	4,281,880	3,884,767
Investing activities						
Expenditures on property, plant and equipment		(8,305,761)	(12,875,521)	(1,064,893)	(1,048,896)	(23,297)
Recovery of expenditure on property, plant and equipment		—	—	—	—	1,100,000
Expenditures on exploration and evaluation assets		(674,161)	(5,332,807)	(4,309,162)	(3,759,374)	(831,544)
Net cash (used in)/generated from investing activities		(8,979,922)	(18,208,328)	(5,374,055)	(4,808,270)	245,159
Financing activities						
Proceeds for common shares to be issued		—	—	552,037	—	—
Proceeds from share issuance		—	12,747,511	2,480,000	500,000	301,998
Changes in bank indebtedness		(401,790)	(1,831,820)	—	—	—
Proceeds from bank loan		7,489,620	47,121,480	2,500,000	—	—
Proceeds from other debts		—	823,500	—	—	—
Debt issue costs		—	(1,270,000)	—	—	—
Repurchase of shares		—	(3,373,935)	(550,000)	(500,000)	—
Repayment of loans		(6,800,000)	(45,952,898)	(4,041,345)	(1,541,345)	(6,278,093)
Other cash flows relating to financing activities		—	—	(491,674)	(23,063)	(351,942)
Net cash generated from/(used in) financing activities		287,830	8,263,838	449,018	(1,564,408)	(6,328,037)
Increase/(decrease) in cash and cash equivalents		—	4,974,910	438,563	(2,090,798)	(2,198,111)
Cash and cash equivalents at the beginning of the year/period		—	—	4,974,910	4,974,910	5,413,473
Cash and cash equivalents at the end of the year/period	*10(a)*	—	4,974,910	5,413,473	2,884,112	3,215,362
Supplementary information:						
Interest paid		2,637,649	2,808,453	2,945,547	2,189,219	2,145,912

The accompanying notes form part of the Financial Information.

B NOTES TO THE FINANCIAL INFORMATION

(Expressed in Canadian dollars unless otherwise indicated)

1 CORPORATE INFORMATION

Persta Resources Inc. ("Persta Resources" or the "Company") was incorporated under the Business Company's Act (Alberta) on March 11, 2005. Persta Resources is an exploration and development company pursuing crude oil and natural gas production and reserves in Alberta, Canada. The Company's registered and head office is located at 2717, 308-4th Avenue SW, Calgary, Alberta T2P 0H7, Canada.

As at December 31, 2015 and September 30, 2016, 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% of the total common shares respectively of the Company. At December 31, 2013 and 2014, 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, held approximately 82% of the total common shares and 49% of the voting common shares of the Company, and 1648557 Alberta Limited ("164 Co"), which is a corporation controlled by Mr. Le Bo, the president, chief executive officer and executive director of the Company, held 51% of the voting common shares of the Company. JLHY and 164 Co are the controlling shareholders of Aspen.

At September 30, 2016, 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 Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Company has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning January 1, 2016 are set out in note 5.

The Financial Information also complies 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 Information.

(b) Basis of measurement

The Financial Information is 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.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of Financial Information 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 Information 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.

(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.

(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 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.

(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 statements 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 profit or loss.

(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 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 by managements estimate; and

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

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 by managements estimate;

(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.

(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 statements of profit or loss and other comprehensive income 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.

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.

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 transactions 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, 2013, 2014 and 2015 and September 30, 2016, all of the Company's amounts consisted of cash held in bank and cash on hand.

(o) Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the earnings attributable to the shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted earnings/(loss) per share is determined by adjusting the earnings 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 financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are evaluated and are based on managements' experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimated. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements:

Estimates & assumptions

(a) *CGU definition*

The determination of CGUs requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

(b) *Impairment*

The Company assesses impairment on its assets that are subject to amortization when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its FVLCD and its value in use. The Company used the calculation of value in use to determine the fair value of its CGU's. Value in use is determined by estimating the present value of the future net cash flows from the continued use.

Commodity price changes impact the expected future cash flows which may require a material adjustment to the carrying value of tangible and intangible assets. The Company monitors internal and external indicators of impairment relating to its tangible and intangible assets. These indicators include changes in commodity prices, reserve volumes and discount rates.

(c) *E&E assets*

The decision to transfer assets from E&E assets to property, plant and equipment is based on the estimated proved or probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

(d) *Deferred taxes*

The Company follows the statement of financial position method to be consistent with note 3(l). Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the date of statement of financial position could be impacted. Additionally, changes in tax laws could limit the ability of the Company to obtain tax deductions in the future.

(e) *Liquidity*

As part of its capital management process, the Company prepares and utilizes a forecast/budget to direct and monitor the strategy and ongoing operations and liquidity of the Company, including ongoing and forecasted compliance with the covenants as set out within the Company's credit facility agreement (see note 12). Forecasts/budgets are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company (e.g. pipeline and transportation capacity constraints). See further discussions relating to liquidity in note 24(b).

(f) *Depletion, depreciation and reserves*

Depletion is based on the proved plus probable reserves as evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook. The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, prices and economic conditions.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions. Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in measuring FVLCD of property, plant and equipment for impairment calculations.

(g) *Decommissioning and restoration costs*

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of its assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is the risk free rate.

5 CHANGES IN ACCOUNTING POLICIES

Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Periods

Up to the date of issue of the Financial Information, the IASB has issued a few amendments and new standards which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information.

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.

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.

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 September 30, 2016 the Company's future minimum lease payments under non-cancellable operating leases amount to C$733,733 and C$126,500 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.

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. At December 31, 2013, 2014 and 2015 and September 30, 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 at December 31, 2013, 2014 and 2015 and September 30, 2016 was indicative of the Company's current credit spreads. At December 31, 2013, 2014 and 2015 and September 30, 2016, the fair value of these balances approximated their carrying value.

The fair value of other loans approximated their carrying values as at December 31, 2013 primarily due to the current nature of the obligations.

(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
— Shareholders' loan: Level 3
— Other debts: Level 3

During the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 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,			As at September 30,
		2013	2014	2015	2016
	Note	C$	C$	C$	C$
Balance, beginning of year/period		9,259,664	9,435,054	13,040,540	14,419,800
Additions		608,832	6,043,271	3,877,093	775,889
Transfer to property, plant and equipment	*8*	(70,638)	(651,705)	(134,602)	—
Write-offs		(362,804)	(1,786,080)	(2,363,231)	(812,452)
Balance, end of year/period		9,435,054	13,040,540	14,419,800	14,383,237

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, 2015, additions include general and administrative costs amounting to C$798,650 that were capitalized relating to development activities.

For the nine months ended September 30, 2016, additions include general and administrative costs amounting to C$331,321 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, 2013, the Company wrote-off C$362,804 of E&E assets as a result of the decision to not continue exploration activities on certain lands within the Dawson area.

During the year ended December 31, 2014, the Company wrote-off C$1,786,080 of E&E assets as a result of certain land and exploratory drilling costs being determined to be uneconomical due to the decision to discontinue certain exploration activities in the Basing area.

During the year ended December 31, 2015, the Company wrote-off C$2,363,231 of E&E assets relating to certain land leases, which were considered not to have further prospective value and the leases were subsequently not renewed.

During the nine months ended September 30, 2016, the Company directly wrote-off C$812,452 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. Subsequent to September 30, 2016, 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 result, the Company is required to perform certain exploration and evaluation activities during the three months ending March 31, 2017.

8 PROPERTY, PLANT AND EQUIPMENT

Net book value of property, plant and equipment to December 31, 2013, 2014 and 2015 and September 30, 2016 is set out below:

	Note	Cost	Accumulated depletion and depreciation	Net book value
		C$	C$	C$
Balance, January 1, 2013		134,127,104	(55,092,036)	79,035,068
Additions		10,378,486	—	10,378,486
Change in decommissioning obligations	*13*	(66,569)	—	(66,569)
Transfer from E&E assets	*7*	70,638	—	70,638
Impairment loss and write offs	*17*	(195,976)	—	(195,976)
Depletion and depreciation		—	(9,373,697)	(9,373,697)
Balance, December 31, 2013		144,313,683	(64,465,733)	79,847,950
Balance, January 1, 2014		144,313,683	(64,465,733)	79,847,950
Additions		9,701,031	—	9,701,031
Change in decommissioning obligations	*13*	228,160	—	228,160
Transfer from E&E assets	*7*	651,705	—	651,705
Impairment loss and write offs	*17*	(1,628,503)	—	(1,628,503)
Depletion and depreciation		—	(6,976,787)	(6,976,787)
Balance, December 31, 2014		153,266,076	(71,442,520)	81,823,556
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		289,995	—	289,995
Change in decommissioning obligations	*13*	62,749	—	62,749
Depletion and depreciation		—	(5,513,038)	(5,513,038)
Recovery of expenditure on property, plant and equipment		(1,100,000)	—	(1,100,000)
Balance, September 30, 2016		152,248,478	(81,551,661)	70,696,817

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

During the nine months ended September 30, 2016, the Company received a cash payment of C$1,100,000 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 statements of profit or loss and other comprehensive income. The depletion calculation as at December 31, 2013, 2014 and 2015 and September 30, 2016, includes estimated future development costs of C$41,605,000, C$42,926,000, C$42,264,000 and C$30,845,000 respectively associated with the development of the Company's proved plus probable reserves.

There were no indicators of impairment identified at September 30, 2016. Management had identified impairment triggers as at September 30, 2015 and performed impairment tests. During the nine months ended September 30, 2015, the Company recorded an impairment loss of C$208,005 and direct write-offs of property, plant and equipment of C$541,966.

9 ACCOUNTS RECEIVABLE AND PREPAID EXPENSES AND DEPOSITS

	As at December 31,			As at September 30,
	2013	2014	2015	2016
	C$	C$	C$	C$
Accounts receivable				
Trade receivables	2,671,816	2,657,939	1,326,217	2,395,462
Other receivables				
—Amount due from JLHY *(note)*	—	—	156,283	1,292,208
—Others	192,453	1,868,123	815,248	—
	2,864,269	4,526,062	2,297,748	3,687,670

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. As at September 30, 2016, the amount due from JLHY was attributable to the new share issuing proceeds collected by JLHY from certain individual investors on behalf of the Company and the unsettled balance of withholding tax (see notes 14(b)(viii) and 23(b)). The amount is non-trade in nature, unsecured, non-interest bearing and due on demand, which was fully settled in February 2017.

(a) Ageing analysis of trade receivables

As at December 31, 2013, 2014 and 2015 and September 30, 2016, the ageing 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,			As at September 30,
	2013	2014	2015	2016
	C$	C$	C$	C$
Within 1 month	2,671,294	2,607,200	1,311,734	2,381,025
1 to 2 months	87	—	—	—
2 to 3 months	92	50,616	—	—
Over 3 months	343	123	14,483	14,437
	2,671,816	2,657,939	1,326,217	2,395,462

Trade receivables are to be collected within 25 days from the date of billing. Further details on the Company's credit policy are set out in note 24(a).

(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 (see note 3(d)(ii)). No impairment loss has been recognized in respect of trade receivables for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016.

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.

(c) Prepaid expenses and deposits

	As at December 31,			As at September 30,
	2013	**2014**	**2015**	**2016**
	C$	**C$**	**C$**	**C$**
Prepaid expenses	76,612	129,466	785,591	892,572
Deposits	372,717	583,691	672,859	203,036
	449,329	713,157	1,458,450	1,095,608

Deposits include C$357,462, C$568,436, C$657,604 and C$187,781 held with the Alberta Government relating to crown royalty deposits as at December 31, 2013, 2014 and 2015 and September 30, 2016, respectively.

10 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	As at December 31,			As at September 30,
	2013	**2014**	**2015**	**2016**
	C$	**C$**	**C$**	**C$**
Deposits with banks and other financial institutions *(see note 12(b))*	—	4,974,820	5,405,648	3,213,528
Cash on hand	—	90	7,825	1,834
Cash and cash equivalents in the statements of financial position and statements of cash flows	—	4,974,910	5,413,473	3,215,362

(b) Supplementary cash flows information

The following table details the changes in non-cash working capital for the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2015 and 2016:

	Year ended December 31,			Nine months ended September 30,	
	2013	2014	2015	2015	2016
	C$	C$	C$	C$ (Unaudited)	C$
Change in non-cash working capital:					
Accounts receivable	(807,684)	(1,661,793)	2,228,314	307,100	(253,997)
Prepaid expenses and deposits	(60,378)	(263,828)	(745,293)	(406,281)	362,842
Accounts payable and accrued liabilities	2,253,159	(615,191)	(3,453,231)	(944,292)	479,926
	1,385,097	(2,540,812)	(1,970,210)	(1,043,473)	588,771
(Deduct)/add: Movement in non-cash working capital directly included in investing and financing activities	(2,007,396)	2,464,026	1,771,582	1,262,051	140,899
	(622,299)	(76,786)	(198,628)	218,578	729,670

11 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31,			As at September 30,
	2013	2014	2015	2016
	C$	C$	C$	C$
Trade payables	5,719,004	2,901,911	883,564	579,103
Accrued liabilities	478,260	2,157,903	701,479	1,519,770
Other payables	117,886	640,145	661,685	627,781
	6,315,150	5,699,959	2,246,728	2,726,654

All of accounts payable and accrued liabilities are expected to be settled within one year or are payable on demand.

As at December 31, 2013, 2014 and 2015 and September 30, 2016, the ageing analysis of trade payables and accrued liabilities (which is included in accounts payable and accrued liabilities), is as follows:

	As at December 31,			As at September 30,
	2013	2014	2015	2016
	C$	C$	C$	C$
Within 1 month	1,438,995	2,019,034	1,252,015	1,644,026
1 to 3 months	4,087,525	1,615,597	333,028	443,669
Over 3 months but within 6 months	670,744	1,425,183	—	11,178
	6,197,264	5,059,814	1,585,043	2,098,873

12 BANK AND OTHER DEBTS

	As at December 31,			As at September 30,
	2013	2014	2015	2016
	C$	C$	C$	C$
Bank loan *(note (a))*	—	47,121,480	45,580,135	39,302,042
Bank indebtedness *(note (b))*	1,831,820	—	—	—
Other bank loan *(note (b))*	30,350,000	—	—	—
Other debts *(note (c))*	9,277,000	—	—	—
Shareholders' loan *(note (d))*	69,418,658	—	—	—
	110,877,478	47,121,480	45,580,135	39,302,042
Less: unamortized debt issue costs	—	(1,200,000)	(882,387)	(645,896)
Balance, end of year/period	110,877,478	45,921,480	44,697,748	38,656,146

At December 31, 2013, 2014 and 2015 and September 30, 2016, the bank and other debts were payable as follows:

	As at December 31,			As at September 30,
	2013	2014	2015	2016
	C$	C$	C$	C$
Within 1 year or on demand	110,877,478	—	—	—
After 1 year but within 2 years	—	—	—	—
After 2 years but within 5 years	—	47,121,480	45,580,135	39,302,042
After 5 years	—	—	—	—
	—	47,121,480	45,580,135	39,302,042
	110,877,478	47,121,480	45,580,135	39,302,042

Notes:

(a) Bank loan

During the year ended December 31, 2014, the Company obtained a C$200,000,000 credit facility comprised of a C$100,000,000 revolving credit facility and a C$100,000,000 term loan. All advances under the credit facility and term loan are required to be approved by the lender. Under the revolving credit facility, C$50,000,000 is firm committed and has been drawn down by C$47,121,480, C$45,580,135 and C$39,302,042 as at December 31, 2014 and 2015 and September 30, 2016 respectively. Any request for additional advances in excess of the C$50,000,000 would require approval from the lender. With respect to the term loan, it is 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 additional future development plans. The Tranche A term facility expired during the nine months ended September 30, 2016 and the Tranche B remains available, with any advances subject to the approval by the lender. The Tranche B term facility expires on October 19, 2017. No amounts are outstanding under the term loan as at December 31, 2014, 2015 and September 30, 2016. In addition, as at December 31, 2015 and September 30, 2016, the Company maintained letters of credit outstanding of C$264,000 and C$558,000 respectively for transportation services.

All amounts outstanding under the facility bear interest at the Canadian Dealer Offered Rate ("CDOR") (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. At December 31, 2014 and 2015 and September 30, 2016, the applicable effective interest rates on the revolving credit facility were 6.773%, 6.6% and 6.5% respectively. The facility is secured by a C$400 million debenture with a floating charge over all present and after-acquired real and personal property. On December 18, 2015, the Company entered into an amending agreement with the lender relating to the security of the credit facility (see note 23(b)).

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, or pledge additional collateral to the lender in an amount sufficient to cover, in lender's sole opinion, such borrowing base shortfall. 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 in the facility agreement) of less than 4 to 1 (reducing to 3 to 1 commencing January 1, 2016); (3) maintain an interest coverage ratio (the ratio of net operating cash flow, as defined in the facility agreement, to interest expenses) of greater than 4 to 1; and (4) maintain an adjusted present value ratio (reserve based) of greater than 1.7 to 1 (increasing to 2.0 to 1 commencing January 1, 2016). In addition, the Company cannot exceed a maximum of general and administrative expenses equal to 11% of net operating cash flows, as defined in the facility agreement, unless funded through advances of equity (the "G&A cap"). As at December 31, 2014 and 2015 and September 30, 2016, the Company was in compliance with all covenants and terms under the facility. On December 22, 2016, the Company obtained a one-time increase to the G&A cap for the three-month period ended December 31, 2016 whereby general and administrative expenses could exceed the 11% of net operating cash flows to a maximum of C$200,000. All terms included in the covenants and terms described above are as defined by the lender. See further discussion in note 24(b).

(b) Other bank loan

Bank indebtedness was comprised of outstanding cheques in the amount of C$1,831,820 as at December 31, 2013 written from the Company's chequing account.

At December 31, 2013 the Company had a revolving operating demand loan with a Canadian Chartered Bank with a maximum borrowing limit of C$32,300,000 and a maturity date of May 1, 2014. The loan bore interest at the lender's prime rate plus 1.75% to 2.50% per annum depending upon the calculated net debt to cash flow ratio. At December 31, 2013, the applicable interest rate was 4.75%. The outstanding principal balance was C$30,350,000 at December 31, 2013. The full amount of the loan was repaid during the year ended December 31, 2014.

The loan was secured by a general assignment of book debts and a C$75,000,000 debenture with a floating charge over all of the assets of the Company.

As at December 31, 2013 and 2014, through the Company's lender there was a letter of guarantee for C$264,000 and C$264,000 respectively relating to the transport of gas through a third party pipeline which expired on May 13, 2015.

(c) Other debts

As at December 31, 2013, the Company had a subordinated, secured demand loan with a private lender in the amount of C$8,000,000 of principal. The loan bears an interest rate of 13% per annum. The loan was repayable on March 31, 2014. The loan was secured by a general assignment of book debts and a C$10,000,000 debenture with a second charge over all of the assets of the Company.

The loan was subject to certain financial covenants requiring the maintenance of certain financial ratios. The following covenant ratios were not met at December 31, 2013.

The current ratio was less than the required covenant ratio of 1 to 1. The current ratio was defined in the agreement as the ratio of current assets (including the undrawn availability under the bank loan financing) divided by current liabilities.

The secured debt to equity ratio was greater than the required covenant ratio of 1 to 1. The secured debt to equity ratio is defined in the agreement as the ratio of all debt secured by the assets of the Company to the amount of shareholders' equity. The subordinated, secured demand loan was repaid in entirety during the year ended December 31, 2014.

In addition, there were loans from employees outstanding as at December 31, 2013 totaling C$1,277,000. The loans bore interest at a rate of 12% per annum and were unsecured. All of the employees' loans were settled during the year ended December 31, 2014 (see notes 14 and 23).

(d) Shareholders' loan

The shareholder loan was due to JLHY, the then shareholder of the Company and was unsecured, non-interest bearing and due on demand. During the year ended December 31, 2014, JLHY assigned C$6,244,632 of the loan to 164 Co, a corporation controlled by the president of the Company. The Company then converted C$56,201,687 of the loan outstanding to JLHY through issuing 170,984,500 (pre-share splits: 35,126,054) Class C common shares at a deemed price of C$0.80 (pre-share splits: C$3.89) per share to JLHY. The remaining balance owed to JLHY of C$6,652,339 was repaid in cash during the year ended December 31, 2014. To settle the C$6,244,632 due to 164 Co, the Company issued 18,998,279 (pre-share splits: 3,902,895) Class B common shares at a deemed price of C$0.80 (pre-share splits: C$3.89) per share during the year ended December 31, 2014 (see notes 14 and 23).

13 DECOMMISSIONING LIABILITIES

The total future decommissioning obligations were estimated based on the Company's net ownership interest in crude oil and natural gas assets including well sites, gathering systems and facilities, the estimated costs to abandon and reclaim the crude oil and natural gas assets and the estimated timing of the costs to be incurred in future periods. At December 31, 2013, 2014 and 2015 and September 30, 2016, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately C$1,423,000, C$2,153,898, C$2,357,172 and C$2,394,428 respectively, which will be incurred between 2020 and 2030, 2016 and 2050, 2017 and 2063 and 2018 and 2056. The majority of these costs will be incurred by 2035. For the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2016, a discount rate of 2.53%, 1.64%, 1.20% and 0.97% respectively and an inflation rate of 2%, 2%, 2% and 2% respectively were used to calculate the decommissioning obligations. As at December 31, 2013, 2014 and 2015 and September 30, 2016, the decommissioning liabilities are C$1,366,299, C$1,616,614, C$1,764,990 and C$1,841,816 respectively.

The following reconciles the Company's decommissioning liabilities:

	As at December 31,			As at September 30,
	2013	2014	2015	2016
	C$	C$	C$	C$
Balance, beginning of year/period	1,397,144	1,366,299	1,616,614	1,764,990
Change in estimate	(276,629)	107,199	127,973	62,749
Liabilities incurred	210,060	120,961	—	—
Accretion expense	35,724	22,155	20,403	14,077
Balance, end of year/period	1,366,299	1,616,614	1,764,990	1,841,816

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.

(b) Issued:

		Class A		Class B		Class C		Common Shares		
		Number (Note (ix))	Amount	Number (Note (v) and (ix))	Amount	Number (Note (v) and (ix))	Amount	Number	Amount	Total Amount
	Note		C$		C$		C$		C$	C$
At January 1, 2013, December 31, 2013 and January 1, 2014		2,000	10	2,428	5	41,382	85	—	—	100
Shares issued to settle shareholder loan	*(i)*	—	—	18,998,279	15,198,622	170,984,500	136,787,600	—	—	151,986,222
Shares issued to employees and consultants	*(ii)*	—	—	4,560,310	3,648,248	—	—	—	—	3,648,248
Shares issued for cash	*(iii)*	—	—	—	—	13,163,862	12,080,112	—	—	12,080,112
Repurchase of shares	*(iv)*	—	—	(84,000)	(50,400)	(3,323,535)	(2,658,207)	—	—	(2,708,607)
At December 31, 2014		2,000	10	23,477,017	18,796,475	180,866,209	146,209,590	—	—	165,006,075
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	*(vi)*	—	—	—	—	2,700,000	2,480,000	—	—	2,480,000
Repurchase of shares	*(vii)*	—	—	—	—	(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	*(viii)*	—	—	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	*(ix)*	(2,000)	(10)	(24,000,347)	(19,319,805)	(184,704,173)	(149,927,552)	208,706,520	169,247,367	—
At September 30, 2016		—	—	—	—	—	—	208,706,520	169,247,367	169,247,367

During the year ended December 31, 2014 the Company conducted the following transactions:

(i) The Company settled the shareholders' loan (see note 12) in the amount of C$69,098,658 through the issuance of 18,998,279 (pre-share splits: 3,902,895) Class B common shares to 164 Co at a deemed price of C$0.80 (pre-share splits: C$3.89) per share and 170,984,500 (pre-share splits: 35,126,054) Class C common shares to JLHY at a deemed price of C$0.80 (pre-share splits: C$3.89) per share on April 14, 2014 and a cash payment of C$6,652,339. The issuance of shares resulted in a distribution to the shareholders totaling C$89,539,903.

(ii) The Company settled the employees' loans (see note 12) through the issuance of 3,266,532 (pre-share split: 1,633,266) Class B common shares at a deemed price of C$0.80 (pre-share split: C$1.60) per common share on April 15, 2014. The Company issued 1,293,778 (pre-share split: 646,889) Class B common shares to employees and consultants at prices ranging from C$0.45 to C$0.60 (pre-share split: C$0.90 to C$1.20) per share for cash proceeds totaling C$667,399 on April 15, 2014. The Class B common shares issued to the employees and the consultants were recorded at the deemed price of C$0.80 (pre-share split: C$1.60) per share. The issuance of the Class B common shares resulted in share-based compensation totaling C$1,510,908.

(iii) The Company issued Class C common shares for cash. On April 15, 2014 the Company issued 5,418,750 (pre-share split: 2,709,375) Class C common shares at a price of C$0.80 (pre-share split: C$1.60) per share for proceeds totaling C$4,335,000 and in September, October and November 2014 the Company issued 7,745,112 (pre-share split: 3,872,556) Class C common shares at a price of C$1.00 (pre-share split: C$2.00) per share for proceeds totaling C$7,745,112.

(iv) The Company repurchased 84,000 (pre-share split: 42,000) Class B common shares at a price of C$0.60 (pre-share split: C$1.20) per share for cash totaling C$50,400 on July 16, 2014 and 3,323,535 (pre-share split: 1,661,767) Class C common shares at a price of C$1.00 (pre-share split: C$2.00) per share for cash totaling C$3,323,535 on December 3, 2014. The repurchase of the shares resulted in C$665,328 being recorded to accumulated deficits.

(v) Pursuant to board resolution dated April 14, 2014, the Company declared a 2.43387005 share split for the Class B and Class C common shares. The share split has been reflected in the financial statements for 2014 on a retroactive basis.

Subsequent to the year ended December 31, 2014, the Company conducted the following transactions:

(vi) 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.

(vii) 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.

(viii) On January 6, 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 23); the remaining C$1,135,925 of the new shares issuing proceeds are held by JLHY (collected by JLHY from the new shareholders) as at September 30, 2016 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.

(ix) On February 26, 2016, the shareholders of the Company approved, among others, (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 Relevant Periods on a retroactive basis.

15 REVENUE

Turnover represents the sales value of crude oil and natural gas supplied to customers. The amount of each significant category of revenue recognized in turnover during the years/periods is as follows:

	Year ended December 31,			Nine months ended September 30,	
	2013	2014	2015	2015	2016
	C$	C$	C$	C$ (Unaudited)	C$
Sales of crude oil	4,637,508	3,496,316	958,940	579,129	758,908
Sales of natural gas	18,859,541	28,927,551	15,120,658	11,740,651	14,392,347
	23,497,049	32,423,867	16,079,598	12,319,780	15,151,255

For the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2015 and 2016, the Company's customer base includes three, two, two, two (unaudited) and two customers, respectively, with whom transactions have exceeded 10% of the Company's revenues. In the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2015 and 2016, revenues from sales to these customers amounted to C$22,449,852, C$30,245,467, C$13,555,712, C$10,650,110 (unaudited) and C$12,711,769. Details of concentrations of credit risk arising from these customers are set out in note 24(a).

16 FINANCE EXPENSES

		Year ended December 31,			Nine months ended September 30,	
		2013	2014	2015	2015	2016
	Note	C$	C$	C$	C$ (Unaudited)	C$
Interest expense and financing cost		2,637,649	3,070,742	2,936,994	2,195,264	2,142,561
Amortization of debt issue costs	*12*	—	70,000	317,613	238,283	236,491
Accretion expense	*13*	35,724	22,155	20,403	14,869	14,077
Total finance expenses		2,673,373	3,162,897	3,275,010	2,448,416	2,393,129

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 years ended December 31, 2013, 2014 and 2015, the Company identified indicators of impairment for certain CGUs due to overall declines in forecasted commodity prices. As at December 31, 2013, 2014 and 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. As at September 30, 2016, there were no indicators of impairment identified for the Company's two CGUs being the Basing, Alberta CGU and the Dawson, Alberta CGU.

Based on the assessment at December 31, 2013, the carrying amount of the property, plant and equipment within the Company's Dawson CGU was determined to be C$195,976 higher than its recoverable amount and as such, a corresponding impairment loss was recognized.

Based on the assessment at December 31, 2014, the carrying amount of the property, plant and equipment within the Company's Dawson CGU was determined to be C$1,628,503 higher than the recoverable amount and a corresponding impairment loss was recognized.

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.

The recoverable amounts of the Dawson Alberta CGU at each year end were as follows:

	As at December 31,		
	2013	2014	2015
	C$	C$	C$
Dawson CGU	5,104,673	2,494,550	1,567,606

No impairment was recorded for the Basing, Alberta CGU in the years ended December 31, 2013, 2014 and 2015.

The recoverable amount of each CGU was estimated based upon the higher of value in use or FVLCD. In each case, the value in use methodology was used. For the years ended December 31, 2013, 2014 and 2015, in determining value in use, forecasted cash flows pre-tax discount rate at 10 percent were used, with escalated prices and future development costs, as obtained from the reserve report.

As at December 31, 2013, 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
2014	94.65	4.00	0.940
2015	88.37	3.99	0.940
2016	84.25	4.00	0.940
2017	95.52	4.93	0.940
2018	96.96	5.01	0.940
2019	98.41	5.09	0.940
2020	99.89	5.18	0.940
2021	101.38	5.26	0.940
2022	102.91	5.35	0.940
2023	104.45	5.43	0.940
2024(1)	+1.5%/yr	+1.5%/yr	0.940

(1) Approximate percentage change in each year after 2023 to the end of the reserve life

As at December 31, 2014, 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
2015	62.50	3.31	0.850
2016	75.00	3.77	0.875
2017	80.00	4.02	0.875
2018	85.00	4.27	0.875
2019	90.00	4.53	0.875
2020	95.00	4.78	0.875
2021	98.54	5.03	0.875
2022	100.51	5.28	0.875
2023	102.52	5.53	0.875
2024	104.57	5.71	0.875
2025(1)	+2%/yr	+2%/yr	0.875

(1) Approximate percentage change in each year after 2024 to the end of the reserve life

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 (LOSS)/PROFIT BEFORE INCOME TAXES

(Loss)/profit before income taxes is arrived after charging:

	Year ended December 31,			Nine months ended September 30,	
	2013	2014	2015	2015	2016
	C$	C$	C$	C$ (Unaudited)	C$
(a) Staff costs					
Salaries, wages and other benefits	1,193,258	1,527,421	1,147,416	710,638	936,016
Retirement benefits contribution	16,191	19,772	24,019	18,628	24,832
Share-based compensation	—	1,397,309	—	—	221,332
	1,209,449	2,944,502	1,171,435	729,266	1,182,180
(b) Other items					
Operating lease charges					
— office premises	494,152	423,620	480,182	350,922	393,107
— compressors	328,097	595,500	424,650	299,400	373,800
Auditors' remuneration					
— audit services	37,625	170,008	85,095	35,095	75,000

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)/profit before income taxes. The difference results from the following items.

	Year ended December 31,			Nine months ended September 30,	
	2013	2014	2015	2015	2016
	C$	C$	C$	C$ (Unaudited)	C$
(Loss)/profit before income taxes	(653,810)	3,001,753	(2,485,093)	(2,784,233)	(3,642,293)
Combined Federal and Provincial tax rate	25%	25%	26%	26%	27%
Expected tax (benefit)/expense	(163,453)	750,438	(646,124)	(723,901)	(983,419)
Increase/(decrease) in taxes resulting from:					
— Non-deductible expenses	464	380,603	2,756	2,108	61,135
— Change in unrecognized deferred tax assets	162,989	(1,134,476)	1,095,569	1,175,240	923,061
— Change in enacted tax rate	—	—	(425,605)	(452,905)	(777)
— Others	—	3,435	(26,596)	(542)	—
Income tax expense	—	—	—	—	—

During the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2015 and 2016, the blended statutory tax rate was 25%, 25%, 26%, 26% (unaudited) and 27% respectively. The increase in 2015 was due to an increase in the Alberta provincial tax rate from 10% to 12%, effective from July 1, 2015.

The components of unrecognized deferred tax assets are as follows:

	As at December 31,			As at September 30,
	2013	2014	2015	2016
	C$	C$	C$	C$
Deferred tax assets have not been recognized in respect of the following temporary differences:				
Property, plant and equipment and E&E assets	22,956,626	18,366,148	20,710,018	25,203,764
Decommissioning liabilities	1,366,299	1,616,614	1,764,990	1,841,816
Non-capital losses and others	1,495,246	1,297,507	1,286,611	134,782
Total	25,818,171	21,280,269	23,761,619	27,180,362

At December 31, 2013, 2014 and 2015 and September 30, 2016, the Company had approximately C$114,000,000, C$116,000,000, C$115,000,000 and C$112,000,000 respectively of available or unused tax deductions, which includes loss carry forwards of approximately C$1,500,000, C$1,500,000, C$1,500,000 and C$400,000 respectively that expire in 2031, 2032, 2035 and 2036.

20 DIRECTORS' EMOLUMENTS

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

Year ended December 31, 2013

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments	Total
	C$	C$	C$	C$	C$	C$	C$
Executive director							
Le Bo	—	400,000	—	2,356	402,356	—	402,356
Non-executive director							
Yuan Jing	—	—	—	—	—	—	—
	—	400,000	—	2,356	402,356	—	402,356

Year ended December 31, 2014

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments	Total
	C$	C$	C$	C$	C$	C$	C$
Executive director							
Le Bo	—	430,000	—	2,426	432,426	308,000	740,426
Non-executive director							
Yuan Jing	—	—	—	—	—	—	—
	—	430,000	—	2,426	432,426	308,000	740,426

Year ended December 31, 2015

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments	Total
	C$	C$	C$	C$	C$	C$	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

Nine months ended September 30, 2015 (unaudited)

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments	Total
	C$	C$	C$	C$	C$	C$	C$
Executive director							
Le Bo	—	322,500	—	2,480	324,980	—	324,980
Non-executive director							
Yuan Jing	—	—	—	—	—	—	—
	—	322,500	—	2,480	324,980	—	324,980

Nine months ended September 30, 2016

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments	Total
	C$	C$	C$	C$	C$	C$	C$
Executive director							
Le Bo	—	293,834	—	2,544	296,378	—	296,378
Non-executive director							
Yuan Jing	—	—	—	—	—	—	—
Independent non-executive directors							
Richard Dale Orman (appointed on February 26, 2016)	36,667	—	—	—	36,667	—	36,667
Bryan Daniel Pinney (appointed on February 26, 2016)	36,667	—	—	—	36,667	—	36,667
Peter David Robertson (appointed on February 26, 2016)	36,667	—	—	—	36,667	—	36,667
	110,001	293,834	—	2,544	406,379	—	406,379

During the Relevant Periods, 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 Relevant Periods.

21 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one, one, one, one (unaudited), one is a director during the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2015 and 2016, 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,			Nine months ended September 30,	
	2013	2014	2015	2015	2016
	C$	C$	C$	C$ (Unaudited)	C$
Salaries and other emoluments	663,530	760,890	928,060	726,060	598,383
Termination pay	—	—	75,000	75,000	—
Share-based compensation	—	972,642	—	—	64,000
Retirement scheme contributions	9,425	9,702	9,920	9,920	10,178
	672,955	1,743,234	1,012,980	810,980	672,561

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

	Year ended December 31,			Nine months ended September 30,	
	2013	2014	2015	2015	2016
	Number of individuals	Number of individuals	Number of individuals	Number of individuals (Unaudited)	Number of individuals
Hong Kong dollars					
Nil–1,000,000	1	—	—	—	3
1,000,001–1,500,000	2	—	2	3	1
1,500,001–2,000,000	—	1	1	1	—
2,000,001–2,500,000	1	—	1	—	—
2,500,001–3,000,000	—	1	—	—	—
3,500,001–4,000,000	—	1	—	—	—
4,500,001–5,000,000	—	1	—	—	—

22 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss of C$653,810, profit of C$3,001,753, loss of C$2,485,093, loss of C$2,784,233 (unaudited) and loss of C$3,642,293 attributable to owners of the Company for each of the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2015 and 2016 respectively and the deemed weighted average of 45,810, 144,768,368, 204,430,842, 204,345,226 (unaudited) and 208,594,636 common shares in issue during the years ended December 31, 2013, 2014 and 2015 and the nine months ended September 30, 2015 and 2016 respectively, calculated as follows:

Weighted average number of common shares	Year ended December 31,			Nine months ended September 30,	
	2013	2014	2015	2015	2016
	Number of shares	Number of shares	Number of shares	Number of shares (Unaudited)	Number of shares
Issued common shares as at the beginning of the year/period	45,810	45,810	204,345,226	204,345,226	206,495,226
Effect of new shares issued	—	145,025,512	547,122	434,066	2,099,410
Effect of shares repurchased	—	(302,954)	(461,506)	(434,066)	—
Weighted average number of common shares at the end of the year/period	45,810	144,768,368	204,430,842	204,345,226	208,594,636

Class B and Class C common shares are non-voting common shares but they were otherwise identical to Class A common shares during the Relevant Periods 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)/earnings per share and (loss)/earnings per share amounts are the same for each of Class A, Class B and Class C common shares during the Relevant Periods.

There were no dilutive potential ordinary shares during the Relevant Periods and therefore, diluted (loss)/earnings per share are the same as the basic (loss)/earnings per share.

23 RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

All members of key management personnel is directors of the Company and certain of the highest paid employees, and their remuneration is disclosed in notes 20 and 21.

(b) Transactions with other related parties

As at December 31, 2013, the shareholder loan was due to JLHY and was unsecured and non-interest bearing and due on demand.

During the year ended December 31, 2014, JLHY assigned C$6,244,632 of the loan to 164 Co, a corporation controlled by the president of the Company. The Company then converted C$56,201,687 of the loan outstanding to JLHY through issuing 170,984,500 (pre-share splits: 35,126,054) Class C common shares at a deemed price of C$0.80 (pre-share splits: C$3.89) per share to JLHY. The remaining balance owed to JLHY of C$6,652,339 was repaid in cash during the year ended December 31, 2014. To settle the C$6,244,632 due to 164 Co, the Company issued 18,998,279 (pre-share splits: 3,902,895) Class B common shares at a deemed price of C$0.80 (pre-share splits: C$3.89) per share during the year ended December 31, 2014 (see notes 12 and 14).

In December 2014, the Company repurchased 3,323,535 (pre-share split: 1,661,767) Class C common shares at a price C$1.00 (pre-share split: C$2.00) per share from JLHY.

In addition, there are loans from employees outstanding as at December 31, 2013 totaling C$1,277,000. The loans bore interest at a rate of 12% per annum and were unsecured. During the year ended December 31, 2014, the Company borrowed the loan from employees with amount of C$1,143,500. All of the employee loans were repaid during the year ended December 31, 2014 (see notes 12 and 14).

On December 18, 2015, Aspen, the Company's controlling shareholder, entered into pledge and limited recourse guarantee agreements with the Company's lender (see note 12). As a result, all of the equity interests consisting of Class A common shares held by Aspen have been pledged in favor of the lender. Aspen's pledge and guarantee agreements replace the pledge and limited course guarantee agreements entered into during the year ended December 31, 2014 by JLHY and 164 Co with the Company's lender whereby the Class A common shares held by JLHY and 164 Co were pledged in favor of the lender.

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.

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 remains outstanding as at December 31, 2015 and September 30, 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 pending from JLHY (collected by JLHY from the new shareholders) to the Company as at September 30, 2016 and the amount is included in accounts receivable (see note 9). This amount was collected in December 2016.

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, 2013, 2014 and 2015 and September 30, 2016, the Company's accounts receivables consisted of C$2,671,816, C$2,657,939, C$1,326,217 and C$2,395,462 respectively due from purchasers of the Company's crude oil and natural gas and C$192,453, C$1,868,123, C$971,531 and C$1,292,208 respectively of other receivables. As at December 31, 2013, 2014 and 2015 and September 30, 2016, 69.4%, 81.5%, 74.9% and 74.3% of trade receivables was due from the Company's largest customer respectively, and 88.7%, 99.9%, 82.3% and 94.4% 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 is necessary as at December 31, 2013, 2014 and 2015 and September 30, 2016. The Company has also not written-off any material receivables during the years ended December 31, 2013, 2014 and 2015 and September 30, 2016. There are no material financial assets that the Company considers past due and at risk of collection. As at December 31, 2013, 2014 and 2015 and September 30, 2016, C$2,671,473, C$2,657,816, C$1,311,734 and C$2,381,025 respectively of the trade receivables are less than 90 days old.

(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 our results and financial position. These and other factors may adversely affect our liquidity and our ability to generate profits in the future. Based on current available information, management expect to comply with all financial covenants during the Relevant Periods. In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices as well 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) as at December 31, 2016 and/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, 2013			
	Total	1 year	1–3 years	3–5 years
	C$	C$	C$	C$
Accounts payable and accrued liabilities	6,315,150	6,315,150	—	—
Bank loan	30,350,000	30,350,000	—	—
Bank indebtedness	1,831,820	1,831,820	—	—
Shareholder's loan	69,418,658	69,418,658	—	—
Other debts	9,277,000	9,277,000	—	—
Total	117,192,628	117,192,628	—	—

	As at December 31, 2014			
	Total	1 year	1–3 years	3–5 years
	C$	C$	C$	C$
Accounts payable and accrued liabilities	5,699,959	5,699,959	—	—
Bank loan	47,121,480	—	—	47,121,480
Total	52,821,439	5,699,959	—	47,121,480

	As at December 31, 2015			
	Total	1 year	1–3 years	3–5 years
	C$	C$	C$	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	—

	As at September 30, 2016			
	Total	1 year	1–3 years	3–5 years
	C$	C$	C$	C$
Accounts payable and accrued liabilities	2,726,654	2,726,654	—	—
Bank loan	39,302,042	—	39,302,042	—
Total	42,028,696	2,726,654	39,302,042	—

(c) *Market risk*

Market risk is the risk that changes in market metrics, such as commodity prices, foreign exchange rates and interest rates 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 following table summarizes the financial derivatives entered into during the years ended December 31, 2013 and 2014:

Instrument	Term	Price	Reference	Quantity (GJ/d)	Realized gain/(loss)
		C$			C$
December 31, 2013					
Swap	April 2013 to October 2013	3.26	C$ AECO	1,000	84,085
December 31, 2014					
Swap	January 2014 to December 2014	4.03	C$ AECO	4,500	(370,801)

The Company did not enter into any financial derivatives during the year ended December 31, 2015 and the nine months ended September 30, 2016.

Interest rate risk

As at December 31, 2013, 2014 and 2015 and September 30, 2016, the Company was exposed to changes in interest rates with respect to its bank loans. As at December 31, 2013, 2014 and 2015 and September 30, 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$303,500, C$471,000, C$455,800 and C$393,020 respectively.

(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.

The following are the capital structure of the Company:

	As at December 31,			As at September 30,
	2013	2014	2015	2016
	C$	C$	C$	C$
Bank loan	30,350,000	47,121,480	45,580,135	39,302,042
Shareholder's loan	69,418,658	—	—	—
Other debts	9,277,000	—	—	—
Net working capital deficiency/ (capital)	4,833,372	(4,514,170)	(6,922,943)	(5,271,986)
Net debt	113,879,030	42,607,310	38,657,192	34,030,056
Shareholders' equity/ (deficiency)	(25,962,325)	51,840,172	51,837,116	49,854,078
Total capital	87,916,705	94,447,482	90,494,308	83,884,134

25 TRANSACTION COSTS

	Year ended December 31,			Nine months ended September 30,	
	2013	2014	2015	2015	2016
	C$	C$	C$	C$ (Unaudited)	C$
Transaction costs	—	—	542,081	60,799	2,260,123

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. As part of this process, the Company intends to issue new equity. The costs associated with the issuance of the new equity have been recorded as prepaid expenses whereas costs associated with the listing have been expensed as transaction costs. The prepaid expenses will be reclassified against share capital upon issuance of the new shares. In the event that new shares are not issued, the prepaid expenses will be expensed.

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$41,000 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 lease agreements for two compressors; the lease of the first compressor runs from September 8, 2012 to September 7, 2017 requiring monthly lease payment of C$12,650 and the lease of the second compressor runs from August 12, 2013 to August 11, 2016 with a monthly lease payment of C$22,000. 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	Less than 1 year	1–3 years	4–5 years	After 5 years
	C$	C$	C$	C$	C$
As at December 31, 2013					
Office premise lease	2,122,570	503,806	1,097,500	521,264	—
Lease of compressors	1,249,358	415,800	833,558	—	—
Transportation commitment	3,747,621	483,564	967,128	967,128	1,329,801
Total contractual obligations	7,119,549	1,403,170	2,898,186	1,488,392	1,329,801
As at December 31, 2014					
Office premise lease	1,618,764	510,514	1,108,250	—	—
Lease of compressors	833,558	415,800	417,758	—	—
Transportation commitment	2,845,332	431,659	841,731	820,144	751,798
Total contractual obligations	5,297,654	1,357,973	2,367,739	820,144	751,798
As at December 31, 2015					
Office premise lease	1,173,972	586,986	586,986	—	—
Lease of compressors	417,758	313,606	104,152	—	—
Transportation commitment	2,780,493	483,564	967,128	967,128	362,673
Total contractual obligations	4,372,223	1,384,156	1,658,266	967,128	362,673
As at September 30, 2016					
Office premise lease	733,733	586,986	146,747	—	—
Lease of compressors	126,500	126,500	—	—	—
Transportation commitment	53,126,152	1,157,487	15,926,762	12,881,321	23,160,582
Total contractual obligations	53,986,385	1,870,973	16,073,509	12,881,321	23,160,582

The Company also entered into the following fixed price physical commodity contracts to forward sell natural gas during the year ended December 31, 2015 and the nine months ended September 30, 2016:

Commodity	Term	Quantity	Price
Natural gas	January 1, 2016 to December 31, 2016	1,000 GJ/day	$2.92 per GJ
Natural gas	January 1, 2016 to December 31, 2016	1,000 GJ/day	$2.94 per GJ
Natural gas	January 1, 2016 to December 31, 2016	3,500 GJ/day	$2.95 per GJ
Natural gas	January 1, 2016 to December 31, 2016	1,000 GJ/day	$3.03 per GJ
Natural gas	January 1, 2016 to December 31, 2016	1,000 GJ/day	$3.05 per GJ
Natural gas	March 1, 2016 to December 31, 2016	900 GJ/day	$1.88 per GJ
Natural gas	October 1, 2016 to October 31, 2016	1,000 GJ/day	$2.59 per GJ
Natural gas	October 1, 2016 to October 31, 2016	1,000 GJ/day	$2.54 per GJ
Natural gas	October 1, 2016 to October 31, 2016	2,000 GJ/day	$2.53 per GJ
Natural gas	October 1, 2016 to October 31, 2016	2,000 GJ/day	$2.58 per GJ
Natural gas	November 1, 2016 to November 30, 2016	3,000 GJ/day	$3.02 per GJ
Natural gas	December 1, 2016 to December 31, 2016	2,000 GJ/day	$3.06 per GJ
Natural gas	December 1, 2016 to December 31, 2016	1,000 GJ/day	$3.21 per GJ
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

C SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company in respect of any period subsequent to September 30, 2016. No dividend or distribution has been declared or made by the Company in respect of any period subsequent to September 30, 2016.

Yours faithfully,

KPMG LLP
Chartered Professional Accountants
Calgary, Canada

KPMG
Certified Public Accountants
Hong Kong