Persta Resources Inc.

Persta Resources Inc.

(incorporated under the laws of Alberta with limited liability)

Stock code: 3395

2018

ANNUAL REPORT


PERSTA
Resources Inc.

About Persta Resources Inc.

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

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Financial and Operating Highlights

FINANCIAL HIGHLIGHTS

(Expressed in Canadian dollars)

	Three months ended December 31,		Increase/	Year ended December 31,		Increase/
	2018	2017	(Decrease)	**2018**	2017	(Decrease)
	C$	C$	%	**C$**	C$	%
Revenue from crude oil and natural gas sales	**3,286,345**	4,771,967	(31.1)	**15,364,294**	21,443,207	(28.3)
Trading revenue from natural gas sales	**256,444**	561,743	(54.3)	**1,070,898**	1,240,648	(13.7)
Operating netback (Note 1)	**1,613,505**	3,208,695	(49.7)	**9,508,184**	13,644,355	(30.3)
Adjusted EBITDA (Note 2)	**487,667**	1,504,219	(67.6)	**4,736,353**	7,543,448	(37.2)
Loss and total comprehensive loss for the period attributable to owners of the Company	**(5,335,197)**	(2,858,561)	86.6	**(7,279,461)**	(11,636,792)	(37.5)
Loss per share	**(0.02)**	(0.01)	100	**(0.03)**	(0.04)	(25)
Total production volume (Boe)	**180,018**	208,840	(13.8)	**806,081**	1,042,571	(22.7)
Daily average production volume (Boe/d)	**1,957**	2,270	(13.8)	**2,208**	2,856	(22.7)

Notes:

(1) Operating netback is defined as revenue less royalties, trading cost and operating costs. Operating netback is a non-IFRS financial measure. See "Non-IFRS Financial Measures" of this report for further information.

(2) Adjusted EBITDA is defined as earnings before deduction of finance expenses, income taxes, depletion and depreciation, impairment losses and write-offs, transaction costs and share-based compensation. Adjusted EBITDA is a non-IFRS financial measure. See "Non-IFRS Financial Measures" of this report for further information.

Five-Year Financial Summary

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

RESULTS

	Year ended December 31,				
	2018 **C$ 000**	2017 C$ 000	2016 C$ 000	2015 C$ 000	2014 C$ 000
Revenue	**16,435**	22,684	23,706	16,080	32,424
Operating netback(Note 1)	**9,508**	13,645	15,599	11,371	21,573
Net (loss)/earnings	**(7,279)**	(11,637)	(2,286)	(2,485)	3,002

Note:

(1) Operating netback is a Non-IFRS Financial Measure calculated as revenue less royalties, trading cost and operating costs. See "Non-IFRS Financial Measures" on page 45 of this annual report.

ASSETS AND LIABILITIES

	As at December 31,				
	2018 **C$ 000**	2017 C$ 000	2016 C$ 000	2015 C$ 000	2014 C$ 000
Total assets	**103,581**	111,091	91,431	100,546	105,078
Total liabilities	**(35,521)**	(36,398)	(40,220)	(48,709)	(53,238)
Total net assets	**68,060**	74,693	51,211	51,837	51,840
Share capital	**204,367**	204,367	169,247	167,036	165,006
Common shares to be issued	**—**	—	—	552	—
Warrants	**647**	—	—	—	—
Accumulated deficit	**(136,953)**	(129,674)	(118,036)	(115,751)	(113,166)
Total shareholders' equity	**68,061**	74,693	51,211	51,837	51,840

Reserves Summary

THE RESERVES ESTIMATED BY GLJ

As at December 31, 2018	**Total Mboe**	**Natural gas %**	**Crude oil, condensate and other natural gas liquids ("NGLs") %**
Gross Proved Reserves	**10,654**	**95.1**	**4.9**
Gross Proved plus Probable Reserves	**15,050**	**95.2**	**4.8**

As at December 31, 2017	Total Mboe	Natural gas %	Crude oil, condensate and other natural gas liquids ("NGLs") %
Gross Proved Reserves	10,806	94.6	5.4
Gross Proved plus Probable Reserves	15,220	94.6	5.4

The reserves data provided in this Annual Report is based upon the report of GLJ dated effective December 31, 2018, with an execution date of February 15, 2019 (the "**GLJ Report**"). GLJ is an independently qualified reserves evaluator and auditor based in Calgary, Alberta, Canada.

The estimate of Gross Proved and Probable Reserves as at December 31, 2018 and 2017 assumes forecast prices and costs as at the execution date of the GLJ Report.


PERSTA

Chairman's Statement

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the Annual Report of Persta Resources Inc. (the "Company") for the year ended December 31, 2018.

OUR PERFORMANCE

As at December 31, 2018, the Company held 10,654 Mboe of gross proved reserves and 15,050 Mboe of gross proved plus probable reserves. As at December 31, 2018, the Company had five wells in production and one well that had been voluntarily and temporarily shut-in in Basing, four wells behind the pipe and ready for tie-in in Voyager and one well in production and two wells that had been voluntarily and temporarily shut-in in Dawson.

During the year ended December 31, 2018, the Company sold natural gas and crude oil to customers who are involved in gas and oil trading. For the year ended December 31, 2018, the Company's revenue from the sales of natural gas decreased by C$6.0 million to C$12.5 million compared to C$18.5 million for the same period of 2017; the sales volume of natural gas decreased by 23% to 4,471,584 Mcf compared to 6,220,849 Mcf for the same period of 2017.

For the year ended December 31, 2018, the Company's revenue from the sale of crude oil increased by C$0.3 million to C$1.8 million compared to C$1.5 million for the same period of 2017; the sales volume of crude oil increased by 8% to 27,507 Bbl compared to 25,546 Bbl for the same period of 2017.

For the year ended December 31, 2018, the Company's revenue from the sale of NGLs and condensate decreased by C$0.6 million to C$2.1 million compared to C$2.7 million for the same period of 2017; the sales volume of NGLs and condensate decreased by 35% to 33,311 Bbl compared to 51,062 Bbl for the same period of 2017.

For the year ended December 31, 2018, the Company acquired 4,767 acres in the Progress-Montney and Dawson-Seal areas and currently holds approximately 115,000 acres of undeveloped land. The Company will continue to refine and high-grade its undeveloped lands, acquiring and retaining rights in prospective areas, and allowing rights to expire in areas that are less prospective as more data is acquired.

The natural gas market remained weakened in 2018, and in response the Company has strategically decreased production volumes to retain its reserves/resources for future recovery and long term growth. To fulfil its committed forward contracts for natural gas, the Company has taken advantage of the low price environment and purchased from the market, saving operating, transport and processing costs and arbitraging the price difference. Thus far in 2019, gas prices have been higher than the comparable months in 2018, and the current strip price for the remainder of 2019 and 2020 is higher as well.

Reflecting the weak gas market, for the year ended December 2018, the Company limited its capital expenditures to completing and testing the last well drilled at Voyager and land acquisition. The operational focus was for the development of Voyager, bringing into production the four wells drilled in 2017, and allowing for the expansion of production at Basing and additional production from Voyager as new wells are drilled in the future.

Chairman's Statement

OUTLOOK

The Company has made great leaps since it went public in 2017. In the years to come, we will continue to grow our energy supplies and meet the expectations of our shareholders. For 2019, the Company is evaluating development alternatives for Voyager, where it has four gas wells drilled and completed, awaiting tie-in and connection to our Basing network through a new pipeline. Subject to capital availability, this development is currently forecast to be completed in the first quarter of 2020. Voyager production will increase the Company's revenue and cashflow which will be used to fund new drilling.

We will make every effort to achieve quality growth by enhancing the efficiency of the Company by putting more efforts in polishing our management and business model, and on internal reforms to maximize the potential for business growth and improve productivity. Furthermore, we will continue to expand and integrate global resources by expanding and development reserves and undeveloped lands to enhance our overall portfolio. At the same time, we will take the initiative to adapt to the evolving and developing market to meet the market demands by actively developing our natural gas and crude oil business and to grapple with the pace of the transition of energy from non-fossil fuel sources.

Going forward, the Company aspires to improve the future of our industry with our positioning, skills set and coverage despite the market volatility and uncertainties in the natural gas and crude oil industries. Facing these uncertainties, we will continue to develop a resilient strategy to mitigate risks.

Barring any further unforeseen material adverse external developments, our business strategy is to maintain our competitiveness and growth and deliver strong shareholder returns by (i) optimizing the value of our existing natural gas and oil assets through efficient field development, drilling and completion; (ii) upgrading our reserves by drilling and developing our undeveloped land position; (iii) improving our drilling and completion techniques; and (iv) pursuing potential acquisition opportunities with significant value appreciation.

Chairman's Statement

OUR APPRECIATION

On behalf of the Board of Directors, I would like take this opportunity to convey my appreciation to our fellow staff, our shareholders and our customers for their continued confidence in the Company and continuing support in advancing our corporate initiatives. We aim to continuously reward our shareholders by sharing our results while keeping in mind our long-term development. To achieve the high aims we have set, the Company must have a global vision and capability with utmost professionalism and efficiency. I believe our dedicated employees and the Board of Directors are the best illustration of the Company's determination to succeed.

Le Bo
Chairman
Calgary, Canada, April 26, 2019

Profiles of Directors and Senior Management

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

DIRECTORS

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

Name	Age	Position	Date of Appointment as Director
Executive Director			
Mr. Le Bo (伯樂)	39	President, Chairman of the Board, Chief Executive Officer and executive Director	March 2005
Non-executive Director			
Mr. Yuan Jing (景元)	60	Non-executive Director	March 2005
Independent non-executive Directors			
Mr. Richard Dale Orman	70	Independent non-executive Director	February 2016
Mr. Bryan Daniel Pinney	66	Independent non-executive Director	February 2016
Mr. Peter David Robertson	67	Independent non-executive Director	February 2016

Executive Director

Mr. Le Bo (伯樂), aged 39, is the executive Director, President and Chief Executive Officer of the Company, the Chairman of the Board, the Chairman of the nomination committee and a member of the remuneration committee of the Board, and is one of the Controlling Shareholders.

Mr. Bo has over 13 years of experience in the natural gas and oil industry. Mr. Bo worked at Fairmont Hotels & Resorts and Suncor Energy Inc. as an independent contractor. Mr. Bo is the cofounder of the Company in 2005 and held the positions of President and Chief Executive Officer since March 11, 2005. Since the founding of the Company, Mr. Bo has worked together with management to formulate and implement all natural gas and oil exploration projects of the Company and the development plan of the Company in the strategic level. Mr. Bo is primarily responsible for the Company's overall development and growth strategies, and supervision of key management issues.

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

Profiles of Directors and Senior Management

Non-executive Director

Mr. Yuan Jing (景元), aged 60, is a non-executive Director and is one of the Controlling Shareholders. Mr. Jing is primarily responsible for advising on business development matters. Mr. Jing has been appointed to the Board since 2005.

Mr. Jing has more than 22 years of experience in business. Mr. Jing is currently the chairman of the board of directors of JLHY since his appointment in 1996. Further, Mr. Jing has been appointed as the President and CEO of Jie Fang Road School (解放大路學校) since 1994. Since completing secondary education, Mr. Jing spent 12 years working as a bank clerk in the local branches of Industrial and Commercial Bank of China in Jilin Province, China, during 1981 to 1985 and 1985 to 1993.

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

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

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

Profiles of Directors and Senior Management

Independent Non-executive Directors

Mr. Richard Dale Orman, aged 70, is an independent non-executive Director, the Chairman of the remuneration committee and a member of the audit and risk committee of the Board. Mr. Orman is currently a senior counsel of the Canadian Strategy Group which provides government relations consultation in Canada.

Mr. Orman has over 42 years of experience in the oil and natural gas and energy industry. Mr. Orman was an Executive Assistant to Minister of Mines and Minerals of the Government of Alberta from 1972 to 1975 and a Special Assistant to Minister of Energy and Natural Resources of the Government of Alberta in 1976. From 1989 to 1992, Mr. Orman was the Minister of Energy of the Government of Alberta, responsible for overseeing, among others, Alberta Department of Energy and Alberta Petroleum Marketing Commission. As the Minister of Energy, Mr. Orman served as a delegate to the Organization of the Petroleum Exporting Countries, the United States Interstate Oil and Gas Compact Commission, and the South West Energy Council. Mr. Orman served as the Chairman and CEO of Kappa Energy Inc., an international energy exploration company, from 1994 to 1998, and as a director of Vanguard Oil Corp. from 1998 to 2001. From 2003 to 2005, Mr. Orman was the executive vice chairman of Exceed Energy Inc., which was listed on the Toronto Stock Exchange ("**TSX**"). From 2007 to 2011, Mr. Orman was a lead director of Daylight Energy Ltd, which was listed on the TSX. Further, Mr. Orman is a director of WesCan Energy Corporation, a company listed on the TSX Venture Exchange (CVE: WCE) and principally engaged in oil and gas production and exploration in Canada and the US with its major assets of light to medium oil-based products located in central Alberta and Saskatchewan, Canada. Mr. Orman also served as chief executive officer and director of NOR Energy AS, an oil and gas exploration company with its major assets located in the North Sea, Tanzania, Australia and the Czech Republic, until 2011. Mr. Orman is also a shareholder of PLM Consultants Ltd, a Calgary based advisory services company established in 1981.

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

Mr. Bryan Daniel Pinney, aged 66, is an independent non-executive Director, the Chairman of the audit and risk committee and a member of each of the remuneration and nomination committees of the Board. Mr. Pinney is also a director of North American Energy Partners Inc, a company listed on the Toronto Stock Exchange and New York Stock Exchange (TSX & NYSE: NOA) since May 13, 2015, and a director of TransAlta Corporation, a company listed on the Toronto Stock Exchange and the New York Stock Exchange (TSX: TA; NYSE: TAC) since April 20, 2018.

Mr. Pinney has more than 32 years of experience in financial auditing, valuation and advising companies in energy and natural resources. Mr. Pinney was Deloitte's Calgary Managing Partner from 2002 through 2007 and served as the National Managing Partner of Audit & Assurance from 2007 to 2011, and retired after being Vice Chairman at Deloitte from 2011 to 2015. Prior to joining Deloitte, Mr. Pinney was a partner of Andersen LLP from 1986 and the Calgary Managing Partner from 1991 through May 2002 and a member of the Board of Partners. Mr. Pinney was also a member of the ASC's Financial Advisory Committee, which advises the ASC's chief accountant on financial accounting and disclosure matters.

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

Profiles of Directors and Senior Management

Mr. Peter David Robertson, aged 67, is an independent non-executive Director and a member of each of the audit and risk and nomination committees of the Board.

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

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

SENIOR MANAGEMENT

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

Name	Age	Year Joined	Position
Mr. Pingzai Wang (王平在)	52	2006	Senior Vice President, Exploration
Mr. Binyou Dai (代斌友)	49	2009	Vice President, Engineering
Mr. Jesse Meidl	43	2018	Chief Financial Officer (from January 2018)
Mr. Lei Song (宋磊)	35	2014	Vice President, Business Development

Mr. Pingzai Wang (王平在), aged 52, is the Senior Vice President, Exploration in charge of exploration activities of the Company. Mr. Wang joined the Company in October 2006 and served as Vice President, Exploration of the Company since April 2008. Mr. Wang has been involved in natural gas and oil exploration projects since joining the Company.

Mr. Wang has over 30 years of experience in the natural gas and oil industry. He began his professional career in various oil and gas operations of China National Petroleum Corporation ("**CNPC**") in 1988 and has been the Senior Engineer since 1998. Mr. Wang was the Geologist, Chief Geologist and Exploration Manager of Daqing Exploration Company of Daqing Oilfield Company Limited (大慶油田有限責任公司), a subsidiary of CNPC for the period from July 1988 to June 2002. Mr. Wang is experienced in energy exploration activities and was involved in several major energy exploration and development projects, including oil and gas projects in Hailar Basin (Inner Mongolia, China), Tarim Basin (Xinjiang, China) and Indonesian projects (South Sumatra, Java and Irian Jaya, etc.) from 1988 to 2006 during his employment under CNPC. His expertise in exploration seismic interpretation and prospects generation through his experience in CNPC has contributed substantially to the growth of the Company.

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

Profiles of Directors and Senior Management

Mr. Binyou Dai (代斌友), aged 49, joined the Company in June 2009 and was appointed as our Company's Vice President, Engineering on March 31, 2014. Mr. Dai has over 26 years of experience in the natural gas and oil industry and has been involved in the natural gas and oil engineering and facilities development of the Company since joining the Company.

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

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

Mr. Jesse Meidl, aged 43, is the Chief Financial Officer of the Company. Mr. Meidl joined the Company in January 2018 and is responsible for financial management of the Company. Mr. Meidl has over 20 years of corporate finance, accounting and advisory experience in international oil and gas exploration, production and services. Prior to joining Persta, he was the Finance Director and Chief Financial Officer of Caithness Petroleum Limited based in London, United Kingdom, and previously worked as an investment banker specializing in corporate finance and advisory in the United Kingdom and Canada with Thomas Weisel Partners and Westwind Capital Partners. Mr. Meidl was the Chief Financial Officer of Arsenal Energy Inc. (a predecessor company to Prairie Provident Resources Inc.) between 2004 and 2007.

Mr. Meidl has a Bachelors of Commerce degree from the University of Saskatchewan and professional designations of United Kingdom Corporate Finance and Canadian Chartered Professional Accountant.

Profiles of Directors and Senior Management

Mr. Lei Song (宋磊), aged 35, joined the Company as a Production Engineer in May 2014 and was promoted as Vice President, Business Development in March 2017. He has been involved in the monitoring and evaluation of the production of the Company and formulation of development plans of the Company. Mr. Song has 7 years of working experience in the natural gas and oil industry.

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

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

Management's Discussion And Analysis

As of December 31, 2018, we held **118,807** net acres of lands in WCSB

The highest production of 2018 was **3,297** Boe/d.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended December 31, 2018 and the audited annual financial statements and MD&A for the year ended December 31, 2017. All amounts in this MD&A are stated in thousands of Canadian dollars unless indicated otherwise.

FORWARD LOOKING INFORMATION

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

Management's Discussion and Analysis

OVERVIEW

The Company was incorporated in Calgary, Alberta, Canada under the Business Corporations Act (Alberta) in 2005. Persta is an exploration and development company pursuing petroleum and natural gas production and reserves in Alberta, Canada. Persta focuses on long-term growth through acquisition, exploration, development and production in the Western Canadian Sedimentary Basin ("**WCSB**"). The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on March 10, 2017 (the "**Listing Date**") pursuant to an initial public offering and trades under the stock code of "3395". The Company has been a reporting issuer under the Securities Act (Alberta) since October 2, 2018.

Persta commenced operations on March 11, 2005 with the objective of building a successful Canadian natural gas and crude oil exploration, development and production company with a long-term business strategy. The Company acquired its first 6,400 net acres of land in an area in the WCSB in January 2007 known as the Alberta Foothills and drilled and commercially produced liquids-rich natural gas from the Company's first deep well in this area in December 2008. Since then, the Company's natural gas and crude oil production rate has organically grown with average sales of 2,208 Boe/d for the year ended December 31, 2018. As at December 31, 2018, the Company held 118,807 net acres of land in the WCSB, which the Company intends to explore through drilling subject to capital availability.

Presently, the Company has four core areas of operations:

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

Management's Discussion and Analysis

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

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

FUTURE PROSPECTS

The Company acquired Petroleum and Natural Gas Licenses for Basing, Voyager and Kaydee in the Alberta Foothills, Dawson near Peace River and Progress-Montney in northern Alberta between 2006 and 2018. In 2018, approximately 90% of the Company's revenue was generated from the Basing area. Voyager is geologically analogous and located approximately 30 kilometers ("**km**") from Basing.

The Company is evaluating development alternatives for Voyager, where it has four gas wells drilled and completed, awaiting tie-in and connection to our Basing network through a new pipeline. Subject to capital availability, this development is currently forecast to be completed in the first quarter of 2020. Voyager production is expected to increase the Company's revenue and cashflow which is intended to be used to fund new drilling.

The Company plans to develop its natural gas assets in Basing, Voyager and Progress-Montney through new drilling as capital is available, and constructing facilities to support future increases in production which would lower unit production costs in the long run.

Management's Discussion and Analysis

Selected Annual Information

	Year ended December 31, 2018	2017	2016	2015	2014
AVERAGE DAILY PRODUCTION					
Natural gas (Mcf)	**12,251**	15,879	20,147	10,380	15,611
Crude oil (Bbls)	**75**	70	61	54	102
NGLs and Condensate (Bbls)	**91**	140	161	85	81
Oil Equivalent (Boe)	**2,208**	2,856	3,579	1,868	2,786
AVERAGE DAILY TRADING					
Natural gas (Mcf)	**190**	1,165	—	—	—
AVERAGE SALES PRICES					
Natural gas (C$ per Mcf)	**2.56**	2.98	2.72	3.61	4.70
Crude oil (C$ per Bbl)	**65.97**	58.02	49.53	49.09	93.50
NGLs (C$ per Bbl)	**35.54**	28.10	19.96	17.98	51.05
Condensate (C$ per Bbl)	**75.58**	62.77	52.81	61.81	88.92
FINANCIAL ($'000)					
Production and trading revenue	**16,435**	22,684	23,706	16,080	32,424
Royalties	**(1,164)**	(2,793)	(1,780)	(1,072)	(5,295)
Trading cost	**(409)**	(500)	—	—	—
Operating costs	**(5,354)**	(5,746)	(6,327)	(3,636)	(5,556)
Operating netback (Note 1)	**9,508**	13,645	15,599	11,372	21,573
Net (loss)/earnings	**(7,279)**	(11,637)	(2,286)	(2,485)	3,002
Net working capital (Note 2)	**(1,646)**	(22,252)	5,122	6,923	4,514
Total assets	**103,582**	111,091	91,431	100,547	105,078
Capital expenditures	**7,962**	18,864	1,412	5,374	18,208
(LOSS)/PROFIT PER SHARE					
Per basic share	**(0.03)**	(0.04)	(0.01)	(0.01)	0.02
Per diluted share	**(0.03)**	(0.04)	(0.01)	(0.01)	0.02

Notes:

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

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

Management's Discussion and Analysis

Selected Quarterly Information

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
AVERAGE DAILY PRODUCTION								
Natural gas (Mcf)	10,786	9,236	11,090	17,987	13,708	12,196	17,266	20,429
Crude oil (Bbls)	64	75	69	94	73	77	46	84
NGLs and Condensate (Bbls)	95	66	72	133	131	129	148	151
Oil Equivalent (Boe)	1,957	1,680	1,989	3,225	2,490	2,239	3,072	3,639
AVERAGE DAILY TRADING								
Natural gas (Mcf)	1,177	1,207	1,765	418	2,009	2,485	—	—
FINANCIAL ($'000)								
Production revenue	3,286	3,164	3,480	5,434	4,772	4,501	5,393	6,777
Royalties	(266)	(319)	261	(840)	(591)	(396)	(1,040)	(766)
Trading revenue	256	293	426	95	562	679	—	—
Trading cost	(82)	(102)	(145)	(81)	(262)	(237)	—	—
Operating costs	(1,581)	(1,096)	(1,200)	(1,476)	(1,272)	(1,201)	(1,534)	(1,739)
Operating netback (Note 1)	1,614	1,940	2,823	3,132	3,209	3,345	2,819	4,272
Net (loss)/earnings	(5,322)	(1,071)	(342)	(545)	(2,859)	(1,579)	(3,586)	(3,613)
Net working capital (Note 2)	(1,646)	3,638	4,033	(2,639)	(22,252)	660	15,044	19,547
Total assets	103,582	111,604	113,438	110,406	111,091	115,238	110,188	112,251
Capital expenditures	872	18	201	(6,871)	507	3,728	1,743	(6)
(LOSS)/PROFIT PER SHARE								
Per basic share	(0.02)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.02)
Per diluted share	(0.02)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.02)

Notes:

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

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

RESULTS OF OPERATIONS

Project Development and Production Volume

There are three phases in the Company's operations, comprising the exploration phase, the development phase and the production phase. During the exploration phase, the Company conducts geological and geophysical studies combined with seismic mapping to propose drilling locations which might generate natural gas and crude oil prospects on the undeveloped land the Company has acquired.

During the development and production phases, the Company's production volumes largely depend on its drilling and production schedule and access to transport and processing infrastructure to refine and deliver the Company's products to a sales point. During 2018 and 2017 the Company produced gas from 5 wells and crude oil from 3 wells.

Management's Discussion and Analysis

Pricing directly affects the production volume of the Company. Producing wells may be shut in due to economic limit considerations, and the production plan may be delayed or scaled down should there be unfavorable forecast prices.

The natural gas market remained weakened in 2018, and in response the Company has strategically decreased production volumes to retain its reserves/resources for future recovery and long term growth. To fulfil its committed forward contracts for natural gas, the Company has taken advantage of the low price environment and purchased from the market, saving operating, transport and processing costs and arbitraging the price difference.

Natural gas liquids ("**NGLs**") and condensate are the by-products from the production of natural gas, their production volumes decreased commensurate with lower gas production in 2018 compared to 2017. The Company's crude oil production increased 7% while crude oil revenues increased 22% in 2018, as the Company increased production to exploit the higher oil price experienced this year.

For the three months ended December 31, 2018, the Company's total production volume decreased by 28,821 Boe to 180,018 Boe compared to 208,839 Boe for the same period in 2017. For the year ended December 31, 2018, the Company's total production volume decreased by 236,490 Boe to 806,081 Boe, compared to 1,042,571 Boe for the same period in 2017.

The following table shows the number of producing wells and production volume for the Company's natural gas, crude oil, NGLs and condensate for the three months and years ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change %	**2018**	2017	Change %
Natural gas						
Producing wells (number of wells)	**5**	5	0%	**5**	5	0%
Production volume (Mcf)	**992,351**	1,137,062	(13%)	**4,471,584**	5,795,775	(23%)
Natural gas						
Trading volume (Mcf)	**108,251**	196,439	(45%)	**416,993**	425,075	(2%)
Crude oil						
Producing wells (number of wells)	**3**	3	0%	**3**	3	0%
Production volume (Bbl)	**5,879**	6,742	(13%)	**27,507**	25,546	8%
NGLs (by-product of natural gas)						
Producing wells (number of wells)	**5**	5	0%	**5**	5	0%
Production volume (Bbl)	**2,395**	3,342	(28%)	**10,207**	15,771	(35%)
Condensate (by-product of natural gas)						
Producing wells (number of wells)	**5**	5	0%	**5**	5	0%
Production volume (Bbl)	**6,352**	9,245	(31%)	**23,104**	35,291	(35%)
Total						
Producing wells (number of wells)	**8**	8	0%	**8**	8	0%
Production volume (Boe)	**180,018**	208,839	(14%)	**806,081**	1,042,571	(23%)
Trading volume (Boe)	**18,042**	32,740	(45%)	**69,499**	70,846	(2%)

Management's Discussion and Analysis

Average Sales Price

The Company mainly sells its natural gas, natural gas related products (NGLs and condensate) and crude oil products to gas and oil trading companies. The sales price of its natural gas benchmarks to the Canadian Gas Price Reporter, which is also known as the Alberta Energy Company natural gas price ("**AECO natural gas price**"), while the natural gas related products (NGLs and condensate) and crude oil products benchmark to the Edmonton light, sweet crude oil commodity price. During the three months and year ended December 31, 2018, the Company also had in place one-year (January 1, 2018 to December 31, 2018) sales agreements to forward sell its natural gas at a specified price and volume. The value of these sales accounted for 70.3% and 63.5% of the Company's total production revenue from crude oil and natural gas sales for the three months and year ended December 31, 2018, compared with 59.2% and 65.3% for the same periods in 2017. The sales of remaining production accounted for 29.7% and 36.5% of its total revenue from crude oil and natural gas sales for the three months and year ended December 31, 2018, compared with 40.8% and 34.7% for the same periods in 2017.

The natural gas market remained weakened in 2018, and in response the Company has strategically decreased production volumes to retain its reserves/resources for future recovery and long term growth. To fulfil its committed forward contracts for natural gas, the Company has taken advantage of the low price environment and purchased from the market, saving operating, transport and processing costs and arbitraging the price difference.

The following table shows the average market prices and average sales prices for the Company's natural gas, crude oil, NGLs and condensate and the average realized price, average trading sales price and average forward sales price for the Company's natural gas for the three months and year ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018 C$	2017 C$	Change %	**2018 C$**	2017 C$	Change %
Natural gas						
Average market price (C$ per Mcf) (Note 1)	**2.31**	2.37	(2.2%)	**1.74**	2.33	(25.3%)
Average realized price (C$ per Mcf) (Note 2)	**2.83**	3.75	(24.4%)	**2.37**	2.79	(15.1%)
Average forward sales price (C$ per Mcf) (Note 3)	**2.52**	2.92	(13.6%)	**2.72**	3.02	(9.9%)
Average trading sales price (C$ per Mcf) (Note 4)	**1.79**	2.77	(35.4%)	**1.48**	2.92	(49.3%)
Average sales price (C$ per Mcf) (Note 5)	**2.54**	3.07	(17.1%)	**2.56**	2.98	(14.1%)
Crude oil						
Average market price (C$ per Bbl) (Note 6)	**51.41**	68.86	(25.3%)	**70.92**	62.78	13.0%
Average sales price (C$ per Bbl) (Note 5)	**44.20**	67.94	(34.9%)	**65.97**	58.02	13.7%
NGLs						
Average market price (C$ per Bbl) (Note 7)	**18.08**	47.71	(62.1%)	**29.94**	36.61	(18.2%)
Average sales price (C$ per Bbl) (Note 5)	**35.85**	41.05	(12.7%)	**35.54**	28.10	26.5%
Condensate						
Average market price (C$ per Bbl) (Note 7)	**67.71**	73.82	(8.3%)	**80.23**	66.80	20.1%
Average sales price (C$ per Bbl) (Note 5)	**62.95**	66.63	(5.5%)	**75.58**	62.77	20.4%

Management's Discussion and Analysis

Notes:

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

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

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

(4) The average trading sales price was the weighted average price of sales for trading business.

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

(6) The average market price was the average Edmonton light, sweet crude oil settlement price over the period.

(7) The average market price was the average Alberta natural gas liquids price over the period.

Natural Gas

The Company's average sales price of natural gas consists of two components: the weighted average of the realized price and the average forward sales price of natural gas. The average realized price represents the average price of natural gas sales excluding the sales derived from forward sales.

For the three months ended December 31, 2018, and comparing to the same period of 2017, the average market price of natural gas has decreased from C$2.37 per Mcf to C$2.31 per Mcf. To exploit weakness in the current market, the Company purchased natural gas from the market at C$0.76 per Mcf to fulfill the forward sales contracts with a weighted average price of C$2.52 per Mcf. The aforementioned factors collectively led to a 17.1% decrease of the average natural gas sales price from C$3.07 per Mcf to C$2.54 per Mcf for the three months ended December 31, 2018, compared to the same period of 2017.

For the year ended December 31, 2018, and comparing to the same period of 2017, the average market price of natural gas has decreased from C$2.33 per Mcf to C$1.74 per Mcf. To exploit weakness in the current market, the Company purchased natural gas from the market at C$0.98 per Mcf to fulfill the forward sales contracts with a weighted average price of C$2.72 per Mcf. The aforementioned factors collectively led to a 14.1% decrease of the average natural gas sales price from C$2.98 per Mcf to C$2.56 per Mcf for the year ended December 31, 2018, compared to the same period of 2017.

Crude oil

The average market price of light, sweet crude oil decreased from C$68.86 per Bbl for the three months ended December 31, 2017 to C$51.41 per Bbl for the same period in 2018. As a result, the Company's average sales price decreased by 34.9% from C$67.94 per Bbl for the three months ended December 31, 2017 to C$44.20 per Bbl for the same period in 2018.

The average market price of crude oil increased from C$62.78 per Bbl for the year ended December 31, 2017 to C$70.92 per Bbl for the same period in 2018. As a result, the Company's average sales price increased by 13.7% from C$58.02 per Bbl for the year ended December 31, 2017 to C$65.97 per Bbl for the same period in 2018.

NGLs

The average market price of NGLs decreased from C$47.71 per Bbl for the three months ended December 31, 2017 to C$18.08 per Bbl for the same period in 2018. In the meantime, the Company's average sales price decreased 12.7% from C$41.05 per Bbl for the three months ended December 31, 2017 to C$35.85 per Bbl for the same period in 2018 due to an increase in the sales volume in the days when the market price improved.

Management's Discussion and Analysis

The average market price of NGLs decreased from C$36.61 per Bbl for the year ended December 31, 2017 to C$29.94 per Bbl for the same period in 2018. In the meantime, the Company's average sales price increased 26.5% from C$28.10 per Bbl for the year ended December 31, 2017 to C$35.54 per Bbl for the same period in 2018 due to effective planning of sales when the market price were high in certain days of the reporting period.

Condensate

The average market price of condensate decreased from C$73.82 per Bbl for the three months ended December 31, 2017 to C$67.71 per Bbl for the same period in 2018. As a result, the Company's average sales price decreased by 5.5% from C$66.63 per Bbl for the three months ended December 31, 2017 to C$62.95 per Bbl for the same period in 2018.

The average market price of condensate increased from C$66.80 per Bbl for the year ended December 31, 2017 to C$80.23 per Bbl for the same period in 2018. As a result, the Company's average sales price increased by 20.4% from C$62.77 per Bbl for the year ended December 31, 2017 to C$75.58 per Bbl for the same period in 2018.

The Company sells its natural gas benchmarked to the AECO natural gas price, crude oil benchmarked to the Edmonton light, sweet crude oil settlement price, and its NGLs and condensate benchmarked to the average Alberta natural gas liquids price. The Company also enters into forward sales agreements to sell its natural gas over a time period at a specified price and volume. Since the Company uses weighted average to calculate the average sales prices, the volatilities in price and volume sold each day will cause the average sales price of crude oil, NGLs and condensate and the average realized price of natural gas to be either lower or higher than the average market price for the same periods in 2018 and 2017.

Revenue

The following table shows the breakdown of the Company's revenue before royalties by types of natural resources for the three months and year ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018 C$'000	2017 C$'000	Change %	**2018 C$'000**	2017 C$'000	Change %
Natural gas	**2,798**	4,122	(32%)	**12,511**	18,543	(33%)
Crude oil	**260**	458	(43%)	**1,815**	1,482	22%
NGLs and Condensate	**485**	753	(36%	**2,109**	2,659	(21%)
Total revenue	**3,543**	5,333	(34%	**16,435**	22,684	(28%)

Management's Discussion and Analysis

Sales of Natural Gas

The following table shows the sales volume and average sales price of the Company's natural gas for the three months and year ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change %	**2018**	2017	Change %
Sales volume (Mcf)	**1,100,603**	1,333,501	(17%)	**4,888,577**	6,220,850	(21%)
Realized sales volume	**58,471**	54,712	7%	**781,823**	891,425	(12%)
Forward sales volume	**933,881**	1,082,350	(14%)	**3,689,761**	4,904,350	(25%)
Trading sales volume	**108,251**	196,439	(45%)	**416,993**	425,075	(2%)
Average sales price (C$/Mcf)	**2.54**	3.09	(18%)	**2.56**	2.98	(14%)
Average Realized sales price	**2.83**	3.75	(24%)	**2.37**	2.79	(15%)
Average Forward sales price	**2.52**	2.92	(14%)	**2.72**	3.02	(10%)
Average Trading sales price	**1.79**	2.77	(35%)	**1.48**	2.92	(49%)

The revenue derived from the Company's sales of natural gas is a function of the average price and volume of natural gas sold. The Company's average sales price of natural gas consisted of the weighted average of the realized price and the forward sales price of natural gas. The sales volume of the Company's natural gas was dependent on the Company's production capacity influenced by its drilling plan and production wells in Alberta Foothills. Although the Company decreased its production volume in response to the soft market, the average sales price increased due to the forward sales contracts which fixed a sale price higher than the spot price.

Sales of Crude Oil

The following table shows the sales volume and average sales price of the Company's crude oil for the three months and year ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change %	**2018**	2017	Change %
Sales volume (Bbl)	**5,879**	6,742	(13%)	**27,507**	25,546	8%
Average sales price (C$/Bbl)	**44.20**	67.94	(35%)	**65.97**	58.02	14%

The revenue derived from the Company's sales of crude oil is subject to the average sales price and the sales volume of crude oil. The average sales price of the Company's crude oil is highly sensitive to Edmonton light, sweet crude oil price; and the sales volume of its crude oil was dependent on the Company's production capacity influenced by its drilling plan and production wells from the Peace River area. Due to the improvement in the market price of crude oil, the average sales price increased, and the Company resumed the production from previously shut-in wells in the Dawson area, increasing its production volume and crude oil revenue.

Management's Discussion and Analysis

Sales of NGLs

The following table shows the sales volume and average sales price of the Company's NGLs for the three months and year ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change %	**2018**	2017	Change %
Sales volume (Bbl)	**2,395**	3,342	(28%)	**10,207**	15,771	(35%)
Average sales price (C$/Bbl)	**35.85**	41.05	(13%)	**35.54**	28.10	26%

Sales of Condensate

The following table shows the sales volume and average sales price of the Company's condensate for the three months and year ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change %	**2018**	2017	Change %
Sales volume (Bbl)	**6,352**	9,245	(31%)	**23,104**	35,291	(35%)
Average sales price (C$/Bbl)	**62.95**	66.63	(6%)	**15.70**	62.77	(75%)

The average sales price of the Company's NGLs and condensate is highly sensitive to the Alberta natural gas liquids commodity price and demand of the petrochemical industry. The sales volume of its NGLs and condensate is dependent on the Company's production capacity influenced by its drilling plan and production wells in the Alberta Foothills area. Due to the improvement in the market price of NGLs and condensate, the average sales price increased, while the production volume decreased as a result of the decrease of natural gas production volume.

Trading Cost of Natural Gas

The following table shows the purchase volume and average purchase price of the Company's natural gas for the three months and year ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018	2017	Change %	**2018**	2017	Change %
Purchase volume (Mcf)	**89,550**	187,704	(52%)	**416,993**	425,075	(2%)
Average purchase price (C$/Mcf)	**0.76**	1.40	(46%)	**0.98**	1.18	(17%)

Management's Discussion and Analysis

Royalties

The following table shows the breakdown of the Company's royalties by types of natural resources for the three months and years ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018 C$'000	2017 C$'000	Change %	**2018 C$'000**	2017 C$'000	Change %
Natural gas, NGLs and condensate	**116**	433	(73%)	**516**	2,375	(78%)
Crude oil	**150**	157	(4%)	**648**	418	(55%)
Total royalties	**266**	590	(55%)	**1,164**	2,793	(58%)

For the three months ended December 31, 2018, the effective average royalty rate decreased by 32.2% to 7.5%, compared to 11.1% in 2017. For the year ended December 31, 2018, the effective average royalty rate decreased by 42.5% to 7.1%, compared to 12.3% in 2017. The fluctuation of the effective average royalty rate was primarily due to the fluctuation in market price and well production of natural gas. Alberta requires royalties to be paid on the production of natural resources from lands for which it owns the mineral rights. In Alberta, royalties are a function of the royalty rate and royalty base, which are set by a sliding scale formula containing separate elements that account for market price and well production. Royalty rates will fluctuate to reflect change in production rates and market price.

During the three months and year ended December 31, 2018, the Company's royalty rate for natural gas ranged between 5% to 18%, the rate for NGLs (propane and butane) was 30%, the rate for condensate was 40%, and the rate for crude oil ranged between 5% to 20%. The Company's royalty rate was also influenced by the Modernizing Alberta's Royalty Framework under which a producer will pay a flat royalty of 5% on a well's early production until its total revenue, from all hydrocarbon products, equals the drilling and completion cost allowance.

Natural gas, NGLs and condensate

For the three months ended December 31, 2018, the royalties paid for natural gas, NGLs and condensate decreased by C$317,208 to C$115,890 compared to C$433,098 for the same period in 2017, representing 43.5% and 73.3% of the total royalties respectively. For the year ended December 31, 2018, the royalties paid for natural gas, NGLs and condensate decreased by C$1,859,185 to C$515,550 compared to C$2,374,735 for the same period in 2017, representing 44.3% and 85.0% of the total royalties respectively. The decrease of royalties was primarily due to the decrease in market price and well production of natural gas.

Crude oil

For the three months ended December 31, 2018, the royalties paid for crude oil decreased by C$7,661 to C$150,219 compared to C$157,880 for the same period in 2017, representing 56.5% and 26.7% of the total royalties respectively. For the year ended December 31, 2018, the royalties paid for crude oil increased by C$229,508 to C$648,254 compared to C$418,746 for the same period in 2017, representing 55.7% and 15.0% of the total royalties respectively. The increase of royalties paid was a function of the increase of production volumes in response to the improvement in the market price.

Management's Discussion and Analysis

Operating Costs

The following table shows the breakdown of the Company's operating costs by types of natural resources for the three months and years ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
Total operating costs	**2018 C$'000**	2017 C$'000	Change %	**2018 C$'000**	2017 C$'000	Change %
Natural gas, NGLs and condensate	**1,410**	1,189	19%	**4,741**	5,372	(12%)
Crude oil	**171**	83	107%	**613**	374	64%
Total	**1,581**	1,272	24%	**5,354**	5,746	(7%)
Average operating costs	**C$**	C$	%	**C$**	C$	%
Natural gas, NGLs and condensate (Per Boe)	**8.10**	5.88	38%	**6.09**	5.28	15%
Crude oil (Per Bbl)	**29.06**	12.25	137%	**22.29**	14.63	52%
Average Cost (Per Boe)	**8.78**	6.09	44%	**6.64**	5.51	21%

For the three months ended December 31, 2018, operating costs increased to C$1,581,178 compared to C$1,271,550 for the same period in 2017. For the year ended December 31, 2018, the operating costs decreased to C$5,353,764 compared to C$5,746,160 for the same period in 2017. In both periods, the decrease of operating costs compared to the prior year was primarily attributable to the decrease in production volumes of natural gas and NGLs and condensate.

Natural Gas, NGLs and Condensate

Approximately 90% Company's revenue was generated from the sales of natural gas, NGLs and condensate in 2018 ad 2017. As a result, the majority of operating costs come from the natural gas and associated liquids business.

The natural gas market remained weakened in 2018, and in response the Company has strategically decreased production volumes to retain its reserves/resources for future recovery and long term growth. To fulfil its committed forward contracts for natural gas, the Company has taken advantage of the low price environment and purchased from the market, saving operating, transport and processing costs and arbitraging the price difference.

Average operating costs for the three months ended December 31, 2018 increased by C$2.22 per Boe to C$8.10 per Boe, compared to C$5.88 per Boe for the same period in 2017. The average operating costs for the year ended December 31, 2018 increased by C$0.81 per Boe to C$6.09 per Boe compared to C$5.28 per Boe for the same period in 2017. The increase in average operating costs was primarily attributable to the payment of the firm services transport costs, which was higher than the actual production reflecting trading gas purchases over the periods.

Management's Discussion and Analysis

Crude Oil

The market price of crude oil increased in the second half of 2017 and first half of 2018. As a result the Company increased production from the Dawson area, increasing total operating costs for the three months and year ended December 31, 2018.

The average operating costs for the three months ended December 31, 2018 increased by C$16.80 per Bbl to C$29.06 per Bbl compared to C$12.25 per Bbl for the same period in 2017. The average operating costs for the year ended December 31, 2018 increased by C$7.66 per Bbl to C$22.29 per Bbl compared to C$14.63 per Bbl for the same period in 2017. The increase in costs for both periods in 2018 was attributable to additional water disposal costs.

General and Administrative Costs

The following table shows the breakdown of the general and administrative costs for the three months and years ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018 C$'000	2017 C$'000	Change %	**2018 C$'000**	2017 C$'000	Change %
Staff costs	**583**	416	40%	**2,201**	2,323	(5%)
Accounting, legal and consulting fees	**977**	828	18%	**2,310**	2,370	(3%)
Office rent	**95**	267	(64%)	**252**	670	(62%)
Other	**264**	232	14%	**822**	787	4%
General and administrative costs	**1,919**	1,743	10%	**5,585**	6,150	(9%)
Capitalized staff costs	**119**	195	(39%)	**538**	721	(25%)

For the three months and years ended December 31, 2018 and 2017, general and administrative costs mainly consisted of staff costs, accounting, legal and consulting fees, office rent and others. Other costs include office supplies, insurance and travel and accommodation, etc.

For the three months ended December 31, 2018, general and administrative costs increased by C$176,458 to C$1,918,839 compared to C$1,742,381 for the same period in 2017. For the year ended December 31, 2018, general and administrative costs decreased by C$565,435 to C$5,584,534 compared to C$6,149,973 for the same period in 2017. 2017 general and administrative costs included a management bonus for the completion of the Company's initial public offering.

Phantom Unit Plan for independent non-executive Directors

The Company has in place the Phantom Unit Plan for its independent non-executive directors effective on March 10, 2017 and applied retrospectively starting from February 26, 2016. In order for the eligible directors to receive the Phantom Units, they need to complete a participation form prior to the commencement of each fee period (i.e. twelve-month period commencing January 1 and ending on December 31). For the years ended December 31, 2018 and 2017, each eligible Director agreed in writing to receive 60% of their fees (i.e. the designated percentage) relating to future services as a director in the form of phantom units under the Phantom Unit Plan. Since 2016, the eligible directors have agreed to receive C$15,000 quarterly under the Phantom Unit Plan.

Management's Discussion and Analysis

Under the terms of the plan, the Company calculates the Phantom Units by dividing the Phantom Fee by the weighted average-trading price of the Company's common shares for the five days preceding each quarter end multiplied by the number of Phantom Units awarded during the quarter. For each period, total compensation accrued for each director under the Phantom Unit Plan is based on the total number of units awarded in the preceding quarters multiplied by the weighted average trading price of the Company's common shares for the five days preceeding the period end.

During the three months ended December 31, 2018, the Company reserved C$36,767 (December 31, 2017: incurred C$74,761) of directors' compensation per the Phantom Unit Plan. During the year ended December 31, 2018, the Company incurred C$110,809 (December 31, 2017: C$122,833) of directors' compensation per the Phantom Unit Plan. As at December 31, 2018, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$373,642 (December 31, 2017: C$262,833).

Upon a director ceasing to be a member of the Board, their Phantom Units may be redeemed by the director for cash at an amount calculated as the number of units redeemed multiplied by the trading price of the Company's shares of the redemption date.

Finance Expenses

The following table shows the breakdown of finance expenses for the three months and year ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018 C$'000	2017 C$'000	Change %	**2018 C$'000**	2017 C$'000	Change %
Interest expense and financing costs	**847**	251	236.9%	**2,684**	6,643	(59.6%)
Amortization of debt issuance costs	**60**	—	—	**170**	210	(13.0%)
Accretion expense	**(7)**	(33)	(79.7%)	**40**	31	29.0%
Total finance expenses	**900**	218	318.8%	**2,894**	6,884	(57.8%)

For the three months and year ended December 31, 2018, finance expenses consisted of interest expense on bank debt, foreign exchange gains and losses, financing costs, amortization of debt issuance costs and accretion expense. For the three months ended December 31, 2018, finance expenses increased by C$682,541 to C$900,823 compared to C$218,282 for the same period in 2017. The increase over 2017 is due to higher interest incurred for the SubDebt (refer to Long Term Debt). For the years ended December 31, 2018, finance expenses decreased by C$3,990,305 to C$2,893,826 compared to C$6,884,131 in 2017. The decrease in finance expenses was attributable to the termination fee associated with the Company's previous debt facility.

Amortization of debt issuance costs includes legal fees, commissions and commitment fees. Commitment costs were capitalized against the bank loan account and amortized as a debt issuance costs account. The Company amortized all the remaining amount of debt issuance costs as a result of termination of the existing facility and entering into the new facility in 2017.

Accretion expense is recognized when updating the present value of the decommissioning provision.

Management's Discussion and Analysis

Depletion and Depreciation

The following table shows the breakdown of the depletion and depreciation expenses for the three months and year ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018 C$'000	2017 C$'000	Change %	**2018 C$'000**	2017 C$'000	Change %
Depletion	**1,146**	1,390	(18%)	**5,333**	6,171	(14%)
Depreciation	**9**	2	287%	**36**	8	350%
Total depletion and depreciation	**1,155**	1,392	(17%)	**5,369**	6,179	(13%)
	C$	C$	%	**C$**	C$	%
Average depletion and depreciation (Per Boe)	**6.42**	6.67	(4%)	**6.66**	5.93	12%

Depletion is calculated applying the depletion ratio to the depletion base. Depletion base is calculated from the net book value of developed and producing assets at the end of the period and future development costs, and the depletion ratio is calculated based upon the production volume for the period divided by the total proved and probable reserves at the beginning of the period.

For the three months and year ended December 31, 2018, the depletion expense comprised the depletion of developed and producing assets, and the depreciation expense comprised the depreciation of office fixed assets, including office furniture, office equipment, vehicles, computer hardware and computer software.

For the three months ended December 31, 2018, the Company's depletion expense decreased by C$243,777 to C$1,146,491 compared to C$1,390,268 for the same period in 2017. For the year ended December 31, 2018, the Company's depletion expense decreased by C$838,255 to C$5,332,516 compared to C$6,170,771 for 2017. The decrease of depletion expense reflected the lower production in 2018 compared to 2017.

Write-offs

Exploration and Evaluation ("E&E") Assets

For the three months and year ended December 31, 2018, there were C$1,790,883 and C$1,790,883 write-offs (December 31, 2017: nil and C$273,969) of E&E assets attributable to land lease expiries. As at December 31, 2018, the Company concluded that there were no triggers for impairment on its E&E assets.

Property, Plant and Equipment ("PP&E")

For the three months and year ended December 31, 2018, the Company recorded write-offs of evaluation and exploration lands totaling C$1,962,280 and C$1,962,280 (December 31, 2017: C$80,256 and C$118,863) as a result of the Company's decision to allow certain non-core lands with no future prospective value to expire.

Management's Discussion and Analysis

Share-based Compensation

There was no share-based compensation during the three months and years ended December 31, 2018 and 2017.

Other Income

On December 20, 2018, the company monotized two in-the-money fixed price physical commodity contracts to sell forward natural gas in 2020 for C$752,000.

Transaction Costs

Transaction costs represent listing expenses incurred in the process of getting the Company listed on the Stock Exchange. On March 10, 2017, the Company was successfully listed on the Stock Exchange and the Company issued 69,580,000 new common shares at HK$3.16 per share (C$0.55 per share), raising gross proceeds of HK$220 million (approximately C$38 million). C$3 million in costs were incurred pursuant to the listing.

There were no transaction costs during the three months and year ended December 31, 2018. For the year ended December 31, 2017, the Company incurred C$3,003,350 of transaction costs. There were no transaction costs incurred during the three months ended December 31, 2017.

Financial Instruments

The Company holds a number of financial instruments, the most significant of which are accounts receivable, accounts payable, cash and loans. Financial instruments are recorded at amortized cost on the balance sheet.

The Company did not enter into any financial derivatives contracts for the three months and years ended December 31, 2018 and 2017.

For the three months ended December 31, 2018, the foreign exchange gain decreased to C$5,681 compared to foreign exchange gain of C$406,813 for the same period in 2017. For the year ended December 31, 2018, the foreign exchange gain increased to C$12,624, compared to foreign exchange loss of C$421,822 in 2017. These foreign exchange gains and losses are related to the revaluation of monetary items held in Hong Kong Dollars, and the value changes with movement in the Hong Kong Dollars/Canadian Dollars exchange rate. The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they relate. The Company has not hedged its exposure to currency fluctuation and the Company currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Net Loss

As a result of the above mentioned reasons, the net loss for the three months ended December 31, 2018 increased by C$2,463,326 to C$5,321,887 compared to C$2,858,561 for the same period in 2017, the net loss for the year ended December 31, 2018 decreased by C$4,357,331 to C$7,279,461 compared to C$11,636,792 for the same period in 2017.

Dividend

The Board did not approve the payment of a final dividend for the year ended December 31, 2018 (year ended December 31, 2017: nil).

Management's Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

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, subordinated debt, other liabilities 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.

Capital Structure of the Company

The Company's capital structure is as follows:

	As at December 31, 2018 C$'000	As at December 31, 2017 C$'000
Long term debt[1]	**23,064**	22,197
Other liabilities	**4,226**	3,798
Net working capital[2]	**1,646**	55
Net debt	**28,936**	26,050
Shareholders' equity	**68,061**	74,693
Total Capital	**96,997**	100,743
Net debt as a percentage of total capital (%)	**29.8**	25.9

Notes:

(1) This is long term debt amount including the unamortized debt issue cost.

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

Management's Discussion and Analysis

Long term debt

(a) Bank loan

On August 24, 2017, the Company and its lender (the "**Lender**") agreed to early termination of its existing facility and then entered into a new facility (the "**New Facility**"). A financing fee totaling C$4.3 million was paid to the Lender upon termination of the old facility and it has been recognized under finance expenses.

The maximum debt available under the New Facility is C$100 million, maturing on September 22, 2020 (36 months) from closing, and is subject to a semi-annual review of the borrowing base by the Lender. The initial New Facility draw was capped at C$24 million, and reduced to C$18.5 million during the period. With the closing of the SubDebt (as defined below), the New Facility is capped at C$10 million until the Company has repaid the SubDebt in full. Pursuant to the terms of the Second Amending Agreement to the SubDebt Agreement, if the bank loan is not paid in full on or prior to January 1, 2020, the SubDebt shall be in default and due upon demand.

The New Facility carries interest of 4% plus one month Canadian Dealer Offered Rate ("**CDOR**"means the arithmetic average of the yields to maturity for bankers' acceptances quoted on the Reuter's Canadian Deposit Offered Rate) calculated on a 365 day basis on drawn amounts and payable in cash on a monthly basis in arrears and a commitment fee equal to 1% per annum will be payable on all amounts committed but undrawn, payable quarterly in arrears. As at December 31, 2018, the applicable effective interest rate on the New Facility was 5.7%.

The New Facility is secured by fixed and floating first priority perfected security interests in the properties and all assets, tangible and intangible, owned by the Company and thereafter acquired by the Company, including, but not limited to, all real and personal property, goods, accounts, contract rights, assignable licenses and assignable permits. The New Facility is subject to the following financial covenants: (a) maintenance at the end of each fiscal quarter a working capital ratio not less than 1.0:1.0; and (b) as measured at the end of each fiscal quarter, total debt to adjusted EBITDA not exceeding 3.0/1.0 through the fiscal quarter ended September 30, 2018 and 2.5/1.0 thereafter (Total debt and EBITDA as defined in the loan agreement). The Company was in compliance with these covenants as at December 31, 2018.

Under the New Facility agreement "total debt" is defined as the consolidated debt of the Company and including any liability; and "adjusted EBITDA" is defined as earnings before deduction of finance expenses, income taxes, depletion and depreciation, write-offs, transaction costs and share-based compensation. With the closing of the SubDebt (as defined below), "total debt" is defined as the consolidated debt of the Company, including any liability and excluding debt defined as other liabilities.

The principal and all accrued and unpaid interest and fees are due on the maturity date or in accordance with the terms of the New Facility. The Company maintains no letters of credit, as at December 31, 2018 (December 31, 2017: C$558,000) for transportation services in relation to the New Facility.

Management's Discussion and Analysis

(b) Subordinated debt

On May 16, 2018, the Company completed a subordinated debt (the "**SubDebt**") financing with an arm's length lender (the "**SubLender**") totaling C$25 million. The SubDebt has a term of 60 months, and bears interest at 12% per annum, compounded and payable monthly. The Company has the option to prepay as follows: (i) after 12 months, the right to prepay C$10 million subject to a prepayment fee of 1% of the amount prepaid; and (ii) after 18 and up to 36 months, the right to prepay any SubDebt amount outstanding in tranches of C$5 million, subject to a prepayment fee of 3% of the amount prepaid; and (iii) after 37 months, the right to prepay any SubDebt amount outstanding in tranches of C$5 million, subject to a prepayment fee of 1% of the amount prepaid. An exit fee of C$0.75 million is payable when the SubDebt facility is repaid or at maturity on May 16, 2023.

The SubDebt is secured by a general security agreement over all present and after-acquired property of the Company subject to the fixed and floating first priority held by the Lender. Prior to December 2018, the SubDebt was subject to the following covenants: (a) maintenance at the end of each fiscal quarter a working capital ratio not less than 1.0:1.0; and (b) as measured at the end of each fiscal quarter, net debt to run rate EBITDA not exceeding 4.0/1.0 through the fiscal quarter ending March 2019, and 3.0/1.0 through the fiscal quarter ending March 31, 2020 and 2.5/1.0 thereafter; and (c) net debt to total proved reserves not exceeding 0.75/1.0 through the fiscal quarter ending March 31, 2019, and not exceeding 0.60/1.0 thereafter; and (d) maintaining the Company's Alberta Energy liability management ratio above 2.0/1.0.

Pursuant to the SubDebt agreement, no later than September 30 in each year, the Company must enter into arrangements to protect against fluctuations in commodity prices for 80% of its forecast production volume from proved Developed Producing Reserves.

Effective December 31, 2018, the Company and SubLender amended the SubDebt agreement (the "**First Amending Agreement**") such that run rate EBITDA for the covenant calculation was changed to trailing twelve months ("**TTM**") EBITDA, and for the fiscal quarter ended December 31, 2018, net debt to TTM EBITDA would not exceed 4.75/1.0.

Under the terms of the SubDebt agreement, "net debt" is defined as the consolidated debt of the Company, less cash held, and excluding debt defined as other liabilities. Under the terms of the First Amending Agreement, TTM EBITDA is defined as the annualized earnings before deduction of interest expenses/income, income taxes, depletion and depreciation, write-offs, unrealized hedging gains/losses and share-based compensation for the four most recent fiscal quarters.

The Company was not in compliance with the net debt to run rate EBITDA covenant of the SubDebt agreement as at September 30, 2018 and obtained a waiver for that covenant breach. After giving effect to the First Amending Agreement, the Company is in compliance with all covenants for the New Facility and SubDebt as at December 31, 2018.

In connection with the SubDebt, the Company sold 8 million share purchase warrants to the SubLender for C$750,000. The Company completed an initial draw of C$20.0 million from the SubDebt at closing. Pursuant to the Second Amending Agreement, subject to approval by the SubLender, the Company has an additional C$5.0 million of SubDebt available.

C$1.25 million in costs have been incurred in relation to the SubDebt and such amounts have been paid to the SubLender. These costs have been capitalised in long term debt and amortised until the maturity of the SubDebt.

Management's Discussion and Analysis

In March 2019, the Company and SubLender further amended the SubDebt agreement (the "**Second Amending Agreement**"). The Second Amending Agreement eliminates the TTM EBITDA covenant for 2019, and implements a deferral of the monthly interest payable to the SubLender starting January 1, 2019 until the earlier of the repayment of the New Facility or January 1, 2020. The Company incurred a fee of C$1.0 million pursuant to the Second Amending Agreement. The fee was deemed to be incurred with the signing of the agreement, but capitalized as an increase of the SubDebt principal, such that the total amount owed under the SubDebt increased to C$21 million, and the total SubDebt available subject to SubLender approval increases to C$26 million. As such, no cash cost will be incurred in relation to the fee in 2019.

In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging.

Due to this volatile economic environment, it is possible that the Company could breach the covenants noted within its facility and SubDebt agreements in future periods. If a covenant violation does occur, this will represent an event of default under the facility and the lenders have the right to demand repayment of all amounts owed under the facility and SubDebt.

Performance services guarantee ("PSG") facility

On April 25, 2018, the Company obtained a PSG from Export Development Canada ("**EDC**") totaling C$4.4 million. Under the terms of the PSG facility, EDC will guarantee qualifying letters of credit ("**L/C"**) on behalf of the Company. Previously, these L/C's were cash collateralized, following approval by EDC the requirement of the Company to hold cash to underwrite the L/C is relieved for the duration of the PSG approval. Under the terms of the PSG facility, the L/C guarantee period is the lesser of one year or the term of the L/C if less than 12 months. The guarantee can be renewed annually for long term L/C's subject to subsequent approval by the EDC. At December 31, 2018, the Company has PSG coverage for the following L/C's:

Amount	Expiry
C$3,223,500	March 16, 2019
C$110,000	January 5, 2019
C$294,000	May 29, 2019
C$264,000	May 29, 2019

For the three months and year ended December 31, 2018, the Company incurred fees totaling nil and C$70,000 in relation to the PSG facility.

Shareholders' Equity

There were 278,286,520 common shares outstanding as at March 29, 2019. The Company was successfully listed on the Stock Exchange on March 10, 2017 with the issuance of 69,580,000 new shares at a price of HK$3.16 per share, resulting in the gross proceeds of HK$220 million (approximately C$38 million).

Management's Discussion and Analysis

Liquidity

During the three months and year ended December 31, 2018, the Company's principal sources of liquidity and capital resources were cash flows from operating activities and financing activities. For the year ended December 31, 2018 the principal use of liquidity was the completion and testing of one well at Voyager and acquisition of undeveloped land. For the three months ended December 31, 2018 the principal use of liquidity was working capital. For the three months and year ended December 31, 2017 the Company's principal use of liquidity and capital resources was for the drilling of four development wells at Voyager and purchase of undeveloped land. The following table shows the Company's cash flows during the three months and years ended December 31, 2018 and 2017:

	Three months ended December 31,			Year ended December 31,		
	2018 C$'000	2017 C$'000	Change %	**2018 C$'000**	2017 C$'000	Change %
Cash flows						
Net cash generated from/(used in) operating activities	**459**	1,937	(76%)	**3,514**	(2,049)	(272%)
Net cash used in investing activities	**(872)**	(11,217)	(92%)	**(4,628)**	(22,197)	(79%)
Net cash generated from/(used in) financing activities	**(4,188)**	(357)	1073%	**1,344**	22,721	(94%)
Effect of exchange rate fluctuations on cash and cash equivalents	**6**	315	(98%)	**13**	(78)	(117%)
Net increase/(decrease) in cash and cash equivalents	**(4,595)**	(9,322)	(51%)	**243**	(1,603)	(115%)
Cash and cash equivalents at the beginning of the period	**7,201**	11,685	(38%)	**2,363**	3,966	(40%)
Cash and cash equivalents at the end of the period	**2,606**	2,363	10%	**2,606**	2,363	10%

Net Cash Generated from/(Used in) Operating Activities

The Company's cash flows generated from/(used in) operating activities primarily consisted of net earnings, the effect of changes in working capital including accounts receivable, prepaid expense, accounts payable and accrued liabilities, with an adjustment for non-cash income and expenses.

Net cash generated from operating activities for the three months ended December 31, 2018 decreased by C$1,477,841 to C$458,669, compared to C$1,936,510 of cash generated for the same period in 2017. Net cash generated from/(used in) operating activities which includes movement in working capital of C$823,582 for the three months ended December 31, 2018, compared to movement in working capital of C$641,941 for the same period in 2017.

Net cash generated from operating activities for the year ended December 31, 2018 increased by C$5,563,517 to C$3,514,045 compared to cash used of C$2,049,472 for 2017. Net cash generated from/(used in) operating activities which includes movement in working capital of C$1,474,482 for the year ended December 31, 2018 compared to movement of C$(381,231) for the same period in 2017.

Management's Discussion and Analysis

Net Cash Used in Investing Activities

The cash outflows from investing activities during the three months and year ended December 31, 2018 were mainly attributable to the Company's investments (Guaranteed Investment Certificate), capital expenditures on PP&E and E&E assets.

For the three months ended December 31, 2018, net cash used in investing activities decreased by C$10,345,521 to C$871,661 compared to C$11,217,182 cash used in investing activities for the same period in 2017. The decrease was primarily due to the decrease in E&E expenditures assets in 2018.

For the year ended December 31, 2018, net cash used in investing activities decreased by C$17,568,674 to C$4,628,458 compared to C$22,197,132 cash used in investing activities for the same period in 2017. The decrease was primarily due to lower E&E expenditures in 2018.

Net Cash Generated from Financing Activities

The Company's financing activities during the three months and years ended December 31, 2018 and 2017 mainly comprised of proceeds from share issuance, proceeds from long term debt and repayment of bank loan.

For the three months ended December 31, 2018, net cash used in financing activities increased by C$3,830,671 to C$4,187,751, compared to C$357,080 of cash used for the three months ended December 31, 2017. The change over the comparative period reflects repayment of C$3,148,885 to the bank loan in the three months ended December 31, 2018.

For the year ended December 31, 2018, net cash generated from financing activities decreased by C$21,377,027 to C$1,344,315, compared to C$22,721,342 for the year ended December 31, 2017. 2017 proceeds included C$36 million (net of share issue costs) from the Company's IPO.

Gearing ratio

Gearing ratio is defined as the ratio of total debt to total equity. As at December 31, 2018, the Company's total debt was C$27,289,679 and the total equity was C$68,060,664. The Company's gearing ratio was 40.1%.

Use of net proceeds from listing

The net proceeds from listing, after deducting share issue cost of C$3.0 million and transaction costs of C$3.0 million, amounted to C$32.0 million. As per the 2017 annual report, all the net proceeds were utilized in 2017 for the drilling of new wells and general working capital as per the development plan.

Capital Resources

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

As at December 31, 2018, the Company had long term debt of C$23.1 million, other liabilities of C$4.2 million and a working capital deficit of C$1.6 million. The Company's cash balance as at December 31, 2018 was C$2.6 million. The Company has an additional C$5.0 million available under the SubDebt and C$1.2 million available under the New Facility, subject to approval from the Sub Lender and Lender.

Management's Discussion and Analysis

The Company has developed a range of planned expenditures for 2019 and 2020 which will be funded from free cashflow, working capital, remaining debt capacity and the Master Turnkey Drilling and Completion Contract. Management believes that its forecast cash flows, working capital and remaining debt capacity is sufficient to cover the next 12 months of the Company's operations, including capital expenditures and current debt repayments.

On March 25, 2019, the Company announced it entered into a subscription agreement with a subscriber to conditionally issue 23.6 million common shares at a price of HK$1.50 per share for gross proceeds of HK$35.4 million (approximately C$6 million) (the "**Subscription**"). The subscriber is a company incorporated under the laws of the British Virgin Islands, and is principally engaged in the investment of clean energy worldwide.

The Company intends to apply the net proceeds from the Subscription for the expansion of its existing business, the development of new business, and general working capital. The Subscription is scheduled to close on or before May 14, 2019. Refer to the Company's announcement and clarification announcement dated March 25, 2019 for additional information regarding the Subscription.

Capital Expenditures

The Company's capital expenditures primarily consisted of the addition of E&E assets and PP&E to increase the Company's operating efficiency and execution capacity. During the three months and year ended December 31, 2018, the Company's capital expenditures were principally funded by cash flows generated from the operations and SubDebt.

The following table shows the Company's capital expenditures during the three months and years ended December 31, 2018 and 2017:

	Three months ended December 31,		Year ended December 31,	
	2018 C$'000	2017 C$'000	**2018 C$'000**	2017 C$'000
PP&E				
Well site	**45**	3	**69**	319
Facilities and pipeline	**83**	143	**122**	1,789
General and administrative costs ("**G&A**") capitalized	**11**	(8)	**13**	46
Office	**—**	154	**—**	162
Sub-total	**139**	292	**204**	2,316
E&E Assets				
Undeveloped lands	**62**	60	**342**	1,547
General and administrative costs capitalized	**110**	203	**525**	675
Unevaluated drilling and completion costs	**725**	8,546	**4,344**	24,181
Sub-total	**897**	8,809	**5,211**	26,403
Change in non-cash working capital	**(5,259)**	2,116	**(2,548)**	(9,855)
Total	**(4,223)**	11,217	**2,867**	18,864

Management's Discussion and Analysis

For the three months ended December 31, 2018, the total capital expenditures (including change in non-cash working capital) decreased by C$15,440,648 to C$(4,223,698), compared to C$11,216,950 for the same period in 2017.

For the three months ended December 31, 2018, the capital expenditures on PP&E were mainly attributable to: (i) well site cost of C$44,794; and (ii) well facility and pipeline costs of C$82,588. The additions in E&E assets were due to: (i) purchase of land rights for C$61,675 in Montney area; (ii) capitalized G&A costs of C$109,869; and (iii) drilling and completion costs of C$725,492 on the new well drilled in the Alberta Foothills.

For the three months ended December 31, 2017, the capital expenditures on PP&E were mainly attributable to: (i) well facility and pipeline cost of C$142,783; and (ii) office fixed assets cost of C$153,507. The additions in E&E assets were due to: (i) purchase of land rights for C$59,987 in the Montney area; (ii) capitalized G&A costs of C$203,264; and (iii) an increase in unevaluated drilling and completion costs of C$8,545,840 on the new wells drilled in the Alberta Foothills.

For the year ended December 31, 2018, the total capital expenditures (including change in non-cash working capital) decreased by C$15,996,802 to C$2,866,598 compared to C$18,863,400 for the same period of 2017.

For the year ended December 31, 2018, the capital expenditures on PP&E were mainly attributable to: (i) well site cost of C$68,514; and (ii) well facility and pipeline costs of C$121,733. The additions in E&E assets were due to: (i) purchase of land rights for C$342,181 in Alberta Foothills and Dawson; (ii) capitalized G&A costs of C$524,571; and (iii) an increase in unevaluated drilling and completion costs of C$4,343,793 on the new well drilled in the Alberta Foothills.

For the year ended December 31, 2017, the capital expenditures on PP&E were mainly attributable to: (i) well site cost of C$318,546; and (ii) well facility and pipeline cost of C$1,835,332. The additions in E&E assets were due to: (i) purchase of land rights for C$1,547,181 in Alberta Foothills and Dawson; (ii) capitalized G&A costs of C$674,652; and (iii) an increase in unevaluated drilling and completion costs of C$24,181,147 on the new well drilled in the Alberta Foothills.

Decommissioning Liabilities

The total future decommissioning obligations were estimated based on the Company's net ownership interest in petroleum and natural gas assets including well sites, gathering systems and facilities, the estimated costs to abandon and reclaim the petroleum and natural gas assets and the estimated timing of the costs to be incurred in future periods. As at December 31, 2018, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations to be approximately C$3.0 million which will be incurred between 2019 and 2067. The majority of these costs will be incurred by 2037. As at December 31, 2018, an average risk free rate of 2.04% (December 31, 2017: 1.87%) and an inflation rate of 2% (December 31, 2017: 2%) were used to calculate the decommissioning obligations.

Management's Discussion and Analysis

The following reconciles the Company's decommissioning liabilities:

	As at December 31, 2018 C$'000	As at December 31, 2017 C$'000
Balance, beginning of the year	**2,172**	1,708
Change in estimate	**(19)**	(40)
Liabilities incurred	**—**	473
Accretion expense	**40**	31
Balance, end of the year	**2,193**	2,172
Which includes:		
Less than 1 year	**206**	205
After 1 year	**1,987**	1,967

As at December 31, 2018, the Company's decommissioning liabilities increased by C$20,833 to C$2,192,981 compared to C$2,172,148 as at December 31, 2017.

The Company's Liability Management Rating ("**LMR**") with the Alberta Energy Regulator ("**AER**") was 28.71 as at March 2, 2019. The LMR reflects the results of a comparison of the corporation's deemed assets to its deemed liabilities and is updated monthly. An LMR rating less than 1.0 would require the Company to pay a deposit to the AER.

RELATED PARTY TRANSACTIONS

(a) Transactions with key personnel

Key management compensation for the three months and year ended December 31, 2018 totaled C$469,503 and C$1,574,385 respectively (December 31, 2017: C$345,321 and C$2,026,932).

During the three months ended December 31, 2018, the Company reversed C$36,767 (three months ended December 31, 2017: C$74,761) of directors' compensation per the Phantom Unit Plan. During the year ended December 31, 2018, the Company incurred C$110,809 (year ended December 31, 2017: C$122,833) of directors' compensation per the Phantom Unit Plan. As at December 31, 2018, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$373,642 (December 31, 2017: C$262,833).

(b) Transactions with other related parties

There were no other related party transactions during the three months and year ended December 31, 2018.

Management's Discussion and Analysis

OFF-BALANCE SHEET TRANSACTIONS

The Company was not involved in any off-balance sheet transactions during the three months and years ended December 31, 2018 and 2017.

PLEDGED ASSETS

As disclosed in this MD&A, all assets are pledged in support of the banking arrangements and there are no other pledges.

COMMITMENTS

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business. For a detailed discussion regarding the Company's commitments and contingencies, please refer to the Company's audited financial statements and notes thereto for the year ended December 31, 2018 and December 31, 2017.

	Total C$'000	Less than 1 year C$'000	1–3 years C$'000	4–5 years C$'000	After 5 years C$'000
As at December 31, 2018					
Office premise lease	3,590	410	1,231	1,231	718
Lease of compressors	456	238	218	—	—
Transportation commitment	46,733	5,709	12,209	7,212	21,603
PSG facility	3,892	3,892	—	—	—
Total contractual obligations	54,671	10,249	13,658	8,443	22,321

Office premise lease:

— In June 2017, the Company entered into an office lease for a term starting from January 2018 to February 2025. The rent payable is as follows:

- January 1, 2018 to December 31, 2018, rent payable of C$17,098 per month
- January 1, 2019 to December 31, 2019, rent payable of C$34,197 per month
- January 1, 2020 to February 27, 2025, rent payable of C$51,295 per month

Management's Discussion and Analysis

In addition, office premise lease costs will include an estimate of the Company's share of operating costs for its office premises for the duration of the lease term.

Lease of compressors:

— The Company entered into a lease agreement for a compressor, term is from December 1, 2017 to November 30, 2020 requiring monthly lease payments of C$19,800.

Transportation Commitment:

— The Company entered into a take or pay firm service transportation agreement with committed transportation volumes as below:

Description	Volume (MMcf/d)	Effective date	Expiring date	Duration
Persta Existing FT-R with NGTL	8.00	2013-11-01	2021-10-31	8 years
Persta New FT-R with NGTL	102.00	2018-07-01	2026-06-30	8 years
Persta FT-R from ConocoPhillips — first agreement	7.24	2016-09-01	2018-08-31	2 years
Persta FT-R from ConocoPhillips — second agreement	3.40	2016-09-01	2018-04-30	1 year and 8 months

The firm service transportation agreements cover the period from November 1, 2013 to December 31, 2026 (the firm service fee varies and is subject to review by the counter-party on an annual basis). The amounts presented in the Commitments table above for the transportation service commitment fee is based on fixed transportation capacity as per these agreements and management's best estimate of future transportation charges.

The Company also entered into the following fixed price physical commodity contracts to forward sell natural gas during the year ended December 31, 2018:

Commodity	Term	Quantity	Price
Natural gas	November 1, 2018 to March 31, 2019	1,000 GJ/day	C$2.14 per GJ
Natural gas	January 1, 2019 to December 31, 2019	6,900 GJ/day	C$2.08 per GJ
Natural gas	January 1, 2019 to March 31, 2019	1,000 GJ/day	C$2.23 per GJ

CONTINGENT LIABILITIES

As at December 31, 2018 and up to the date of this MD&A, the Company had no material contingent liabilities.

Management's Discussion and Analysis

EVENTS AFTER THE REPORTING PERIOD

Subordinated debt agreement amendment

In March 2019, the Company and SubLender agreed to amend the SubDebt agreement. The amendment eliminated the TTM to EBITDA covenant for 2019, and implements a deferral of monthly interest payable for the SubDebt starting January 1, 2019 until the earlier of the repayment of the New Facility or January 1, 2020. The Company incurred a fee totalling C$1.0 million in relation to the amendment. The fee will be capitalized, increasing the SubDebt principal by C$1.0 million, and increasing the total SubDebt available, subject to SubLender approval, to C$26 million.

Performance services guarantee amendments

In March 2019, pursuant to its transportation commitments, the Company reduced its C$3.2 million L/C to C$1.39 million, guaranteed by the EDC on the same terms as the original L/C.

Issue of new shares under general mandate

On March 25, 2019, the Company announced it entered into a subscription agreement with a subscriber to conditionally issue 23.6 million common shares at a price of HK$1.50 per share for gross proceeds of HK$35.4 million (approximately C$6 million). The Company intends to apply the net proceeds from the subscription for the expansion of its existing business, the development of new business, and general working capital. The subscription is scheduled to close on or before May 14, 2019.

NON-IFRS FINANCIAL MEASURES

This MD&A or documents referred to in this MD&A make reference to the terms "operating netback" and "adjusted EBITDA", which are not recognized measures under IFRS, and do not have a standardized meaning prescribed by IFRS. Accordingly, the Company's use of these terms may not be comparable to similarly defined measures presented by other companies. Management considers operating netback an important measure to evaluate the Company's operational performance, as it demonstrates its field level profitability relative to current commodity prices. Management uses adjusted EBITDA to measure the Company's efficiency and its ability to generate the cash necessary to fund a portion of its future growth expenditures or to repay debt. Investors are cautioned that the non-IFRS measures should not be construed as an alternative to net income determined in accordance with IFRS as an indication of the Company's performance.

Operating netback

	Three months ended December 31,			Year ended December 31,		
	2018 C$'000	2017 C$'000	Change %	**2018 C$'000**	2017 C$'000	Change %
Revenue from crude oil and natural gas sales	**3,543**	5,334	(34%)	**16,435**	22,684	(28%)
Trading cost	**(82)**	(263)	(69%)	**(409)**	(500)	(18%)
Royalties	**(266)**	(590)	(55%)	**(1,164)**	(2,793)	(58%)
Operating costs	**(1,581)**	(1,271)	24%	**(5,354)**	(5,746)	(7%)
Operating netback	**1,614**	3,210	(50%)	**9,508**	13,645	(30%)

Management's Discussion and Analysis

Adjusted EBITDA

	Three months ended December 31,			Year ended December 31,		
	2018 C$'000	2017 C$'000	Change %	**2018 C$'000**	2017 C$'000	Change %
Revenue from crude oil and natural gas sales	**3,543**	5,334	(34%)	**16,435**	22,684	(28%)
Trading cost	**(82)**	(263)	(69%)	**(409)**	(500)	(18%)
Royalties	**(266)**	(590)	(55%)	**(1,164)**	(2,793)	(58%)
Operating costs	**(1,581)**	(1,271)	24%	**(5,354)**	(5,746)	(7%)
General and administrative costs	**(1,919)**	(1,742)	10%	**(5,585)**	(6,150)	(9%)
Other income	**793**	38	1,996%	**813**	49	1,559%
Adjusted EBITDA	**488**	1,506	(68%)	**4,736**	7,544	(37%)

The term "total debt" is not used by management in measuring performance but is used in the financial covenants under the Company's credit facility. Under the credit facility agreement, "total debt" is defined as the consolidated debt of the Company and including any liability.

Total debt(1)

	As at December 31, 2018 C$'000	As at December 31, 2017 C$'000	Change %
Long term debt(2)	**23,064**	22,197	4%
Other liabilities	**4,226**	3,798	11%
Letter of credit	**0**	558	(100%)
Total debt	**27,290**	26,554	3%

Notes:

(1) As defined in the Credit Agreement for the purposes of calculating financial based covenants.

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

Management's Discussion and Analysis

HUMAN RESOURCES

The Company had 10 employees as of December 31, 2018 and December 31, 2017. The employees of the Company are employed under employment contracts which set out, among other things, their job scope and remuneration. Further details of their employment terms are set out in the employee handbook of the Company. The Company determines the employees' salaries based on their job nature, scope of duty, and individual performance. The Company also provides reimbursements, allowances for site visits and a discretionary annual bonus for the employees.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described in Note 4 of the audited annual financial statements for the year ended December 31, 2018.

DISCLOSURE CONTROLS AND PROCEDURES

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

Management's Discussion and Analysis

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting ("**ICFR**") to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met. There were no changes made to Persta's internal controls over financial reporting during the period beginning on January 1, 2018 and ending on December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. Management has concluded that Persta's internal control over financial reporting was effective as of December 31, 2018. This assessment was based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

RISK FACTORS AND RISK MANAGEMENT

The Board has established a framework for identifying, evaluating and managing key risks faced by the Company. The Board, through the Audit and Risk Committee, reviews annually the effectiveness of the internal control system of the Company, considering factors such as:

- changes, since the last annual review, in nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
- the scope and quality of management's ongoing monitoring of risks and of the internal control systems;
- the extent and frequency of communication of monitoring results to the board which enables it to assess control of the Company and the effectiveness of risk management;
- the adequacy of resources, staff qualifications and experience and training programmes;
- budget of the Company's accounting and financial reporting functions; communication of the monitoring results to the Board that enables it to assess control of the Company and the effectiveness of the risk management;
- significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have caused unforeseeable outcomes or contingencies that had or might have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's processes for financial reporting and compliance with applicable listing rules and securities laws.

Management's Discussion and Analysis

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

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

IMPACT OF NEW ENVIRONMENTAL REGULATIONS

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

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

Management's Discussion and Analysis

SELECTED ABBREVIATIONS

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

Crude oil and natural gas liquids

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

Natural gas

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

Management's Discussion and Analysis

Other

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

CONVERSION FACTORS — IMPERIAL TO METRIC

Bbl = 0.1590 cubic metres (m^3)

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

acres = 0.4047 hectares (ha)

Btu = 1054.615 joules (J)

feet (ft) = 0.3048 metres (m)

miles (mi) = 1.6093 kilometres (km)

pounds (Lb) = 0.4536 kilograms (kg)

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as disclosed in this report, the Company has neither any other significant investments nor significant acquisitions and disposals of the relevant subsidiaries during the year ended December 31, 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this report, the Company did not have other plans for material investments or capital assets as of the date of this report, as pursuant to paragraphs 32(4) and 32(9) of Appendix 16 of the Listing Rules.

Corporate Governance Report

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended December 31, 2018.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board has adopted the principles and the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules to ensure that the Company's business activities and decision making processes are regulated in a proper and prudent manner.

Save as disclosed in this report, for the year ended December 31, 2018 (the "**Period**"), the Company has complied with the CG Code.

THE BOARD

Responsibilities

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

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

Directors' and Senior Management's Liability Insurance and Indemnity

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

Board Composition

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

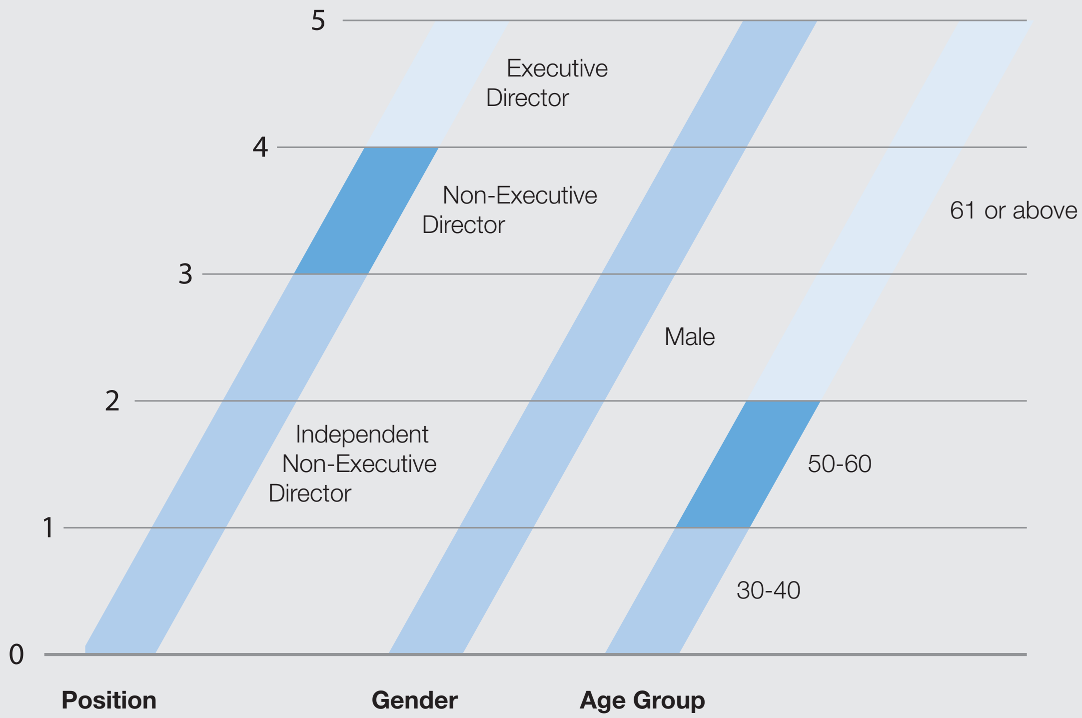
During the year ended December 31, 2018, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Among the three independent non-executive Directors, Mr. Bryan Daniel Pinney has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Corporate Governance Report

Board Diversity Policy

Pursuant to Listing Rules 13.92, listed issuers are required to adopt a board diversity policy. The policy specifies that in designing the composition of the Board, Board diversity shall be considered from a number of aspects, including but not limited to age, cultural and educational background, professional experience, skills and knowledge. The appointment of Directors will be based on meritocracy, and candidates will be evaluated against objective criteria, having due regard for the benefits of diversity of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, culture, educational background, professional experience, knowledge and skills.

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



As at the date of this annual report, the diversity of the Board is illustrated as above. Further details on the biographies and experience of the Directors are set out on page 10 to page 15 of this annual report.

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

Corporate Governance Report

Measurable Objective

The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Company noted that that people from different backgrounds would likely approach problems in different ways and accordingly, members of the Board with diverse backgrounds would bring in different concerns and questions to the table, and allow the Board to consider a wide range of options and solutions when deciding on corporate issues and formulating policies for the Company.

In determining the Board's composition and selection of candidates to the Board, the Nomination Committee considers factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, industry knowledge and length of service, before making recommendation to the Board.

The Board has not set any measurable objectives for the year ended December 31, 2018. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices.

Confirmation of Independence by the Independent Non-executive Directors

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

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

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

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

Induction and Continuous Professional Development

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

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

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

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

Corporate Governance Report

Chairman and Chief Executive Officer

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

Appointment and Re-Election of Directors

The executive Director has entered into a service contract with the Company for a term of three years commencing from February 26, 2017. The term of appointment shall be automatically extended under the same terms of the service contract until it is terminated.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from February 26, 2017. The term of appointment shall be automatically extended under the same terms of the appointment letter until it is terminated.

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

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

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

Majority Voting Policy

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

Corporate Governance Report

Board Meetings

The Company adopts the practice of holding board meetings regularly, at least 3 times a year, and at approximately quarterly intervals. Notices of not less than 14 days are given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least 3 days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the company secretary with copies circulated to all Directors for information and records.

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

During the year ended December 31, 2018, 3 board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Le Bo *(Chairman and CEO)*	3/3
Mr. Yuan Jing	2/3
Mr. Richard Dale Orman	3/3
Mr. Bryan Daniel Pinney	3/3
Mr. Peter David Robertson	2/3

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company's senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company's securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Period. In addition, the Company is not aware of any non-compliance of the Model Code by senior management of the Company during the Period.

Delegation by the Board

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

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

Corporate Governance Report

Corporate Governance Function

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

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

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

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

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

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

BOARD COMMITTEES

Nomination Committee

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

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

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

During the year ended December 31, 2018, one meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

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

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

Corporate Governance Report

The Company has adopted and implemented written terms of reference for the Nomination Committee to identify individuals suitably qualified to become Board members. The Nomination Committee would make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors.

The Nomination Committee will take into account whether a candidate has the qualifications, skills, experience and gender diversity that add to and complement the range of skills, experience and background of existing Directors by considering the highest personal and professional ethics and integrity of the director candidates, proven achievement and competence in the nominee's field and the ability to exercise sound business judgment, skills that are complementary to those of the existing Board, the ability to assist and support management and make significant contributions to the Company's success and such other factors as it may deem are in the best interests of the Company and its shareholders.

The Board, through the delegation of its authority to the Nomination Committee, has used its best efforts to ensure that Directors appointed to the Board possess the relevant background, experience and knowledge in business, finance and management skills critical to the Company's business to enable the Board to make sound and well considered decisions. Collectively, the Directors have competencies in areas which are relevant and valuable to the Company. The Company shall review and reassess the terms of reference for the Nomination Committee and its effectiveness on a regular basis or as required.

Procedure for Nomination of Directors

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

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

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

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

5. Conduct verification on information provided by the candidate.

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

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

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

Corporate Governance Report

Criteria for Nomination of Directors

1. Common criteria for all Directors

(a) Character and integrity.

(b) The willingness to assume board fiduciary responsibility.

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

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

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

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

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

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

(i) Fit with the Company's culture.

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

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

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

(c) Outstanding professional and personal reputation.

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

Remuneration Committee

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

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

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

Corporate Governance Report

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

During the year ended December 31, 2018, one meeting of the Remuneration Committee was held and the attendance record of the Remuneration Committee members is set out in the table below:

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

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

Details of the remuneration by band of the 4 members of senior management of the Company, whose biographies are set out on pages 10 to 15 of this annual report, for the year ended December 31, 2018 are set out below:

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

Phantom Unit Plan

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

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

Corporate Governance Report

On each date in which Phantom Units are to be allotted (the "**Unit Allotment Date**") to an Eligible Director participating in the Phantom Unit Plan (a "**Participant**"), a number of Phantom Units determined by dividing (i) an amount equal to the Designated Percentage of the Fees to have credited in Phantom Units on that Unit Allotment Date, by (ii) the Fair Market Value (the weighted average trading price of the Shares on any exchange where the Shares are listed including the Main Board for the last 5 trading days prior to such day) of a Share on that Unit Allotment Date, shall be credited to the Participant's account.

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

The Phantom Unit Plan became effective on the Listing Date. Details of the Phantom unit Plan are set out in the Company's Prospectus. The independent non-executive directors were entitled to Phantom Units for their services rendered in 2016 and 2018 and such deferred compensation was to be awarded based on the listing price of the Shares on the Listing Date.

Audit and Risk Committee

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

During the year ended December 31, 2018, 4 meetings of the Audit and Risk Committee were held and the attendance record of the Audit and Risk Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Bryan Daniel Pinney *(Chairman)*	4/4
Mr. Richard Dale Orman	4/4
Mr. Peter David Robertson	4/4

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

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

Corporate Governance Report

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2018 which give a true and fair view of the affairs of the Company and of the Company's results and cash flows.

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

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

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

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Controls

The Board places great importance on internal controls and is responsible to ensure that the Company maintains sound and effective internal controls. The Company's risk management and internal control policies are designed to provide reasonable, but not absolute, assurance against material misstatements or loss and to help the Board identify and manage, but not eliminate, risk exposure to help the Company achieve its business objectives.

During the year ended December 31, 2018, the Company has complied with code provision C.2 of the CG Code by establishing appropriate and effective risk management and internal control systems. The Company reviews and monitors the adequacy and effectiveness of the risk management and internal control system on an ongoing basis. Since the Company does not have an internal audit function, the Company has engaged external consultants to complete testing of the design and effectiveness of its internal control system for the year ended December 31, 2018. The testing plans of the consultant are discussed and agreed to each year with the Audit and Risk Committee.

The Company has adopted risk management and internal control systems which manage the risks associated with its business and operations. The systems adopt the procedure of risk identification, analysis, evaluation, treatment, monitoring and reporting. The controls built into the risk management and internal control systems are intended to manage, not to eliminate, significant risks in the Company's business environment.

During the year ended December 31, 2018, the Audit and Risk Committee and the Board have reviewed the overall effectiveness of the Company's risk management and internal controls systems. In conducting such review, the Board has:(i) reviewed and discussed the scope and results of the annual testing with the Company's external consultant; and (ii) reviewed with management the results of the Company's internal management representation process that was performed in connection with the preparation of the annual financial statements. Based on its review, the Board believes that the risk management and internal control systems of the Company are effective and adequate, and is not aware of any material defects in the effectiveness of internal controls.

Corporate Governance Report

The Company has established a code of conduct and ethics, which includes a policy on the handling of confidential information, information disclosure and securities dealing for all employees of the Company to comply with when they are in possession of confidential or inside information in relation to the Company. The code of conduct and ethics provides that the Company's employees, officers, Directors and contract employees will uphold our commitment to a culture of honesty, integrity and accountability and that the Company requires the highest standards of professional and ethical conduct from its employees, officers, Directors and contract employees.

Measures have been adopted to ensure that proper safeguards are in place to prevent a breach of the disclosure requirement, which include restricting the access of information to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality; asking employees to sign confidentiality agreements when the Company enters into significant negotiations or transactions; and designating the Executive Directors to speak on behalf of the Company when communicating with external parties such as the media or investors.

The Company's whistleblowing program is administered by an independent third party, and is available for use when someone suspects or is aware of illegal, unsafe or inappropriate activity at work. The whistleblowing program provides an avenue for individuals to raise concerns confidentially and anonymously.

Annual Assessment

A review of the effectiveness of the Company's risk management and internal control system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2018 was conducted with reference to the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) internal control framework, which assesses the Company's internal control system against the five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. The Company has also conducted an annual review to assess the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their budget (for training and related programs). The approach, findings, analysis and results of this annual review have been reported to the Audit and Risk Committee and the Board. The Audit and Risk Committee and the Board considered the risk management and internal control systems effective and adequate.

AUDITOR'S REMUNERATION

The Company incurred approximately C$192,000 in 2018 for services provided by the external auditor in connection with financial statements audits, interim review of the Company's interim financial statements and incurred approximately C$46,000 in 2018 for non-audit services related to tax compliance services.

Corporate Governance Report

COMPANY SECRETARY AND PRIMARY CONTACT OF THE COMPANY

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

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

During the year ended December 31, 2018, both Ms. Chau Hing Ling and Mr. Bennett Ka-Ying Wong have undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

GENERAL MEETING

All registered shareholders of the Company as at 4:30 p.m. on May 6, 2019 (Hong Kong time) and 2:30 a.m. on May 6, 2019 (Calgary time), as the case may be, may vote in person at the annual general meeting or any adjournments thereof on June 10, 2019, or they (including a beneficial shareholder of the Company) may appoint another person (who need not be a shareholder) as their proxy to attend and vote in their place.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Under the Business Corporations Act (Alberta) (the "**ABCA**"), the directors of a corporation are authorized to call meetings of shareholders. The ABCA establishes two categories of meetings of shareholders: (i) annual meetings, and (ii) special meetings.

There are also specific circumstances in which shareholders may call special meetings where the directors fail to do so. Pursuant to the applicable provisions of the ABCA, registered or beneficial holders of not less than five per cent (5%) of the issued voting shares may requisition the directors to call a meeting of shareholders. If the directors do not call a meeting within 21 days after receiving the requisition, a shareholder who signed the requisition may call the meeting. The ABCA mandates that such shareholders be reimbursed for expenses incurred in requisitioning, calling, and holding the meeting unless the shareholders resolve otherwise at the meeting.

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

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

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

Enquiries to the Board

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

Address: Suite 3600, 888-3rd Street SW, Calgary, Alberta T2P 5C5, Canada

Fax: +1 403-440-1206

Email: ir@persta.ca

Enquiries are dealt with in a timely and informative manner.

CHANGE IN CONSTITUTIONAL DOCUMENTS

No changes were made to the Company's By-Laws during the year ended December 31, 2018.

Directors' Report

The Board is pleased to present its report together with the audited financial statements of the Company for the year ended December 31, 2018.

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW

A review of the Company's business during the year, which includes a discussion of the principal risks and uncertainties faced by the Company, an analysis of the Company's performance using financial key performance indicators, particulars of important events affecting the Company during the year and an indication of likely future developments in the Company's business, can be found in the sections headed "Chairman's Statement" and "Management's Discussion and Analysis" in this annual report. The financial risk management objectives and activities of the Company can also be found in Note 27 to the financial statements. In addition, a discussion on relationships with its key stakeholders is included in the section headed "Management's Discussion and Analysis" in this annual report. The review forms part of this directors' report.

RESULTS

The results of the Company for the year ended December 31, 2018 are set out in the section headed "Management Discussion and Analysis" in this annual report.

FINAL DIVIDENDS

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2018.

DIVIDEND AND DIVIDEND POLICY

The Company has not paid any dividends since incorporation and does not currently have a fixed dividend policy. The Board of Directors will determine any future dividend policy on the basis of, among others things, the results of operations, cash flows and financial conditions, operating and capital requirements, the rules promulgated by the regulators affecting dividends in both Canada and Hong Kong, the Stock Exchange, the amount of distributable profits and other relevant factors.

Directors' Report

Subject to the Business Corporations Act (Alberta), the Directors may from time to time declare and authorise payment of such dividends as they may deem advisable, including the amount thereof and the time and method of payment provided that the record date for the purpose of determining shareholders entitled to receive payment of the dividend must not precede the date on which the dividend is to be paid by more than 50 days.

A dividend may be paid wholly or partly by the distribution of cash, specific assets or of fully paid shares or of bonds, debentures or other securities of the Company, or in any one or more of those ways. No dividend may be declared or paid in money or assets if there are reasonable grounds for believing that the Company is insolvent or the payment of the dividend would render the Company insolvent.

FINANCIAL SUMMARY

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

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The gross proceeds from the Company's initial public offering on March 10, 2017 amounted to approximately HK$220 million. As at December 31 2018, the Company has used all the proceeds raised from the IPO in accordance with its development strategies, market conditions and intended use of such proceeds. The net proceeds were used for the same purposes as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2018, the Company's largest customer accounted for 75.5% (2017: 70.8%) of the Company's total revenue. The Company's five largest customers accounted for 100% (2017: 98.0%) of the Company's total revenue.

For the year ended December 31, 2018, the Company's largest supplier accounted for 23.6% (2017: 21.5%) of the Company's total cost of sales. The Company's five largest suppliers accounted for 30.6% (2017: 28.0%) of the Company's total cost of sales.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company during the year ended December 31, 2018 are set out in Note 11 to the financial statements.

Directors' Report

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2018 are set out in Note 16 to the financial statements.

RESERVES

Details of movements in the reserves of the Company during the year ended December 31, 2018 are set out in the section headed "Statement of Changes In Shareholders' Equity" in this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2018, the Company's distributable reserves were nil (as at December 31, 2017: nil).

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company as at December 31, 2018 are set out in Note 13 to the financial statements.

LOAN AND GUARANTEE

During the year ended December 31, 2018, the Company had not made any loan or provided any guarantee for loans, directly or indirectly, to the Directors, senior management, its Controlling Shareholder or his/her respective connected persons.

DIRECTORS

The Directors during the year ended December 31, 2018 and up to the date of this report were:

Executive Director:

Mr. Le Bo *(Chairman)*

Non-executive Director:

Mr. Yuan Jing

Independent non-executive Directors:

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

Directors' Report

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company as at the date of this annual report are set out on pages 10 to 15 in the section headed "Profile of Directors and Senior Management" in this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received a confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent during the year ended December 31, 2018.

DIRECTORS' SERVICE CONTRACT AND LETTER OF APPOINTMENTS

The executive Director has entered into a service contract with the Company for a term of three years commencing from February 26, 2017. The term of appointment shall be automatically extended under the same terms of the service contract until it is terminated.

Each of the non-executive Director and the independent non-executive Directors has signed an appointment letter with the Company for a term of three years commencing from February 26, 2017. The term of appointment shall be automatically extended under the same terms of the appointment letter until it is terminated.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No Director or any entity connected therewith has or had a material interest in, either directly or indirectly, any transaction, arrangement or contract of significance to the business of the Company subsisting during or at the end of the year ended December 31, 2018.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2018.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

There was no contract of significance to which the Company or its holding company was a party and in which any Controlling Shareholder had a material interest which subsisted during the year ended December 31, 2018.

Directors' Report

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into among the Company and the Controlling Shareholders during the year ended December 31, 2018.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

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

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

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

EMPLOYEES

The Company had 10 employees as at December 31, 2018, which is unchanged from 2016. The employees of the Company are employed under employment contracts which set out, among other things, their job scope and remuneration. Further details of their employment terms are set out in the employee handbook of the Company. The Company determines the employees' salaries based on their job nature, scope of duty, and individual performance. The Company also provides reimbursements, allowances for site visits and a discretionary annual bonus for the employees. The Company also provides employees with welfare benefits in accordance with the applicable laws and the internal policies of the Company.

RETIREMENT BENEFITS SCHEME

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

Directors' Report

EMOLUMENT POLICY

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interest in Shares of the Company

Name of Director	Capacity/Nature of Interest	Number and class of Shares	Approximate percentage of shareholding
Le Bo (Notes 1 and 3)	Beneficial owner, interest of spouse, interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	67.15%
Yuan Jing (Notes 2 and 3)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	67.15%

Notes:

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

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

Directors' Report

Pursuant to the unanimous shareholders agreement dated December 18, 2015 (the "Unanimous Shareholders Agreement") and the first supplemental unanimous shareholders agreement dated April 29, 2016 (the "First Supplemented Unanimous Shareholders Agreement"), Aspen, Mr. Jing, JLHY, Mr. Bo, 164 Co and Liyuan become parties acting in concert and therefore Mr. Bo is deemed to be interested in the Common Shares in which Aspen, Mr. Jing, JLHY, 164 Co and Liyuan are interested in under the SFO, which in aggregate represent approximately 67.15% of the total issued Common Shares of the Company.

2. Mr. Jing is interested in 60% of the equity interest in JLHY.

   Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Aspen, Mr. Jing, JLHY, Mr. Bo, 164 Co and Liyuan become parties acting in concert and therefore Mr. Jing is deemed to be interested in the Common Shares in which Aspen, JLHY, Mr. Bo, 164 Co and Liyuan are interested in under the SFO, which in aggregate represent approximately 67.15% of the total issued Common Shares of the Company.

3. Aspen holds 185,982,832 Common Shares and is owned as to 41.09%, 39.69% and 19.22% by JLHY, 164 Co and Liyuan respectively. Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Aspen, Mr. Jing, JLHY, Mr. Bo, 164 Co and Liyuan become parties acting in concert and therefore Aspen is deemed to be interested in all the Common Shares in which Mr. Jing and Mr. Bo are interested in under the SFO, which in aggregate represent approximately 67.15% of the total issued Common Shares of the Company.

Interest in shares of the associated corporation of the Company

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

Notes:

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

2. Mr. Jing holds 60% of JLHY which in turn holds 38,213,630 shares in Aspen representing approximately 41.09% of the total number of the issued shares of Aspen.

Save as disclosed above, as at December 31, 2018, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Report

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended December 31, 2018 was the Company or its holding company, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2018, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Aspen (Note 1)	Beneficial owner and parties acting in concert	186,862,832 (Long Position)	67.15%
JLHY (Notes 1 and 3)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	67.15%
Jing Hou (Note 4)	Beneficial owner, interest of spouse and parties acting in concert	186,862,832 (Long Position)	67.15%
164 Co (Notes 1 and 5)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	67.15%
Liyuan (Note 6)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	67.15%
Guang Jing (Note 7)	Interest in controlled corporation	186,862,832 (Long Position)	67.15%

Notes:

1. Aspen holds 185,982,832 Common Shares and is owned as to approximately 41.09%, 39.69% and 19.22% by JLHY, 164 Co and Liyuan respectively. Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Aspen, Mr. Jing, JLHY, Mr. Bo, 164 Co and Liyuan became parties acting in concert and therefore Aspen is deemed to be interested in all the Common Shares in which Mr. Jing and Mr. Bo are interested in under the SFO, which in aggregate represent approximately 67.15% of the total number of the issued Common Shares of the Company.

2. Mr. Jing is interested in 60% of the equity interest in JLHY. Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Mr. Jing is deemed to be interested in the Common Shares in which Aspen, JLHY, Mr. Bo, 164 Co and Liyuan are interested in under the SFO, which in aggregate represent approximately 67.15% of the total number of the issued Common Shares of the Company.

Directors' Report

3. JLHY is held as to 60% by Mr. Jing and 40% by Guang Jing, Mr. Jing's brother. Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, JLHY is deemed to be interested in all the Common Shares in which Aspen, Mr. Jing, Mr. Bo, 164 Co and Liyuan are interested in under the SFO, which in aggregate represent approximately 67.15% of the total number of the issued Common Shares of the Company.

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

5. Mr. Bo holds 1,000 class D voting preferred shares in 164 Co, representing approximately 99.01% voting rights of 164 Co. Pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, 164 Co is deemed to be interested in all the Common Shares in which Aspen, Mr. Jing, JLHY, Mr. Bo and Liyuan are interested in under the SFO, which in aggregate represent approximately 67.15% of the total number of the issued Common Shares of the Company.

6. Liyuan is owned as to approximately 98%, 1% and 1% by JLHY, Zhou Li Mei and Jing Yue Li, respectively. In addition, pursuant to the Unanimous Shareholders Agreement and the First Supplemental Unanimous Shareholders Agreement, Liyuan is deemed to be interested in all the Common Shares in which Aspen, Mr. Jing, JLHY, Mr. Bo and 164 Co are interested in under the SFO, which in aggregate represent approximately 67.15% of the total number of the issued Common Shares of the Company.

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

Save as disclosed above, and as at December 31, 2018, the Directors were not aware of any persons (who were not directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not purchased, redeemed or sold any of its listed securities during the Period.

PRE-EMPTIVE RIGHTS

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

NON-COMPETITION UNDERTAKING

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

Directors' Report

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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at December 31, 2018, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company for the year ended December 31, 2018 are set out in Note 26 to the financial statements contained herein.

The related party transactions in respect of the remuneration of directors and chief executive of the Company constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The related party transactions in respect of the remuneration of key management personnel (other than directors and chief executive) of the Company did not fall under the definition of connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. None of the other related party transactions fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

CHARITABLE DONATIONS

During the year ended December 31, 2018, the Company made no charitable or any other donations.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee had reviewed together with management and the external auditor the accounting principles and policies adopted by the Company and the audited financial statements for the year ended December 31, 2018.

Directors' Report

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the year ended December 31, 2018. In addition, the Company is not aware of any non-compliance of the Model Code by senior management of the Company during the Period.

DIRECTORS' INDEMNITIES

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

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

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

CORPORATE GOVERNANCE

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

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The shares of the Company were listed on the Stock Exchange on March 10, 2017, and there has been no change in auditors since the Listing Date. The financial statements for the year ended December 31, 2018 have been audited by KPMG LLP, who are proposed for reappointment at the forthcoming AGM.

MATERIAL LEGAL PROCEEDINGS

The Company was not involved in any material legal proceeding during the year ended December 31, 2018.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended December 31, 2018, the Company was not aware of any non-compliance with relevant laws and regulations that would have an impact thereon.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

STOCK OPTION PLAN

The Company has a stock option plan which was approved and adopted by the shareholders of the Company by ordinary resolution passed on June 8, 2018 ("Stock Option Plan"). No options were granted, exercised, cancelled by the Company or lapsed under the Stock Option Plan during the period from June 8, 2018 to December 31, 2018 and there were no outstanding options under the Stock Option Plan as at June 8, 2018 and up to the date of this annual report.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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

Directors' Report

CHANGES IN THE BOARD AND THE DIRECTORS' INFORMATION

Saved as for the update made to Mr. Bryan Daniel Pinney's profile, there has been no change in the Board and the information of Directors since the date of the Company's 2018 interim report.

On behalf of the Board
Le Bo
Chairman

Calgary, Canada, April 26, 2019

Independent Auditor's Report

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

To the Shareholders of Persta Resources Inc.

OPINION

We have audited the financial statements of Persta Resources Inc. (the "Company"), which comprise the statement of financial position as at December 31, 2018, the statements of loss and other comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our report. We are independent of the Company in accordance with applicable independence standards, and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
Liquidity and going concern Refer to notes 2, 4 and 13 to the financial statements.	
At December 31, 2018, the Company has a working capital deficit of C$1.6 million and C$24 million drawn on its credit facilities. C$4 million of the long term debt is to be paid in full on or prior to January 1, 2020. The credit facilities contain multiple covenants to be maintained by the Company. When an entity's management is aware of material.	The audit procedures that we performed, amongst others, included: • Examining management's assessment and conclusion relating to the going concern assumption. • Examining management's assessment of the Company's compliance with forecasted financial debt covenants for 2019. • Examining management's assessment of and conclusion regarding the ability of the Company to make payments on the long term debt, as they become due. • Evaluating the adequacy of the Company's disclosure in this area.

Independent Auditor's Report

The key audit matter	How the matter was addressed in our audit
Valuation of property, plant and equipment ("PP&E") Refer to note 11 to the financial statements.	
At December 31, 2018, the carrying value of the Company's PP&E was approximately C$55 million. Impairment testing is required for PP&E when events or changes in circumstances indicate that the carrying amount of PP&E for each cash generating unit may exceed its respective recoverable amount. The assessment of whether such events and circumstances exist at December 31, 2018 includes significant judgment.	The audit procedures that we performed, amongst others, included: • Understanding the process and testing the design and implementation of the key controls over management's and the board of directors' review of externally evaluated reserves and impairment assessment. • Examining and challenging management's assessment of whether indicators of possible impairment were present that would require impairment testing. We challenged management's assessment of whether indicators of possible impairment were present through our knowledge of the oil and gas industry and considering the reserve assessment and evaluation report obtained by the Company from its external reservoir engineers. • Examining the impairment test completed by the Company. We, with the assistance of our valuation specialists, examined the methodology used, the appropriateness of the inputs used in the calculations and the mathematical accuracy. • Completing the procedures required by auditing standards to use the work of the Company's external reservoir engineers. • Evaluating the adequacy of the Company's disclosure in this area.

Independent Auditor's Report

The key audit matter	How the matter was addressed in our audit
Valuation of Exploration and Evaluation ("E&E") Assets Refer to note 10 to the financial statements.	
At December 31, 2018, the carrying value of the Company's E&E assets was approximately C$43 million. Impairment testing is required for E&E assets when events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. The assessment of whether such events and circumstances exist at December 31, 2018 includes significant judgment.	The audit procedures that we performed, amongst others, included: • Understanding the process and testing the design and implementation of the key controls over management's and the board of directors' review of E&E assets and impairment assessment. • Inspecting the Company's assessment of whether events and circumstances existed at December 31, 2018 that would indicate that E&E assets are impaired and evaluating the assumptions used. Our evaluations focused on the status of the extension of the exploration licenses, and evaluation of the Company's planned exploration and development activities. • Evaluating the adequacy of the Company's disclosures in this area.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises:

— the information included Management's Discussion and Analysis.

— the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis as at the date of this auditors' report.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report 2018" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this information, we are required to report that fact to those charged with governance.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Company's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Independent Auditor's Report

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

KPMG LLP

Chartered Professional Accountants
Calgary, Canada
March 29, 2019

Statement of Financial Position

As at December 31, 2018 (Expressed in Canadian dollars)

	Note	As at December 31, 2018 C$	As at December 31, 2017 C$
ASSETS			
Current assets			
Cash and cash equivalents	7	**2,605,709**	2,363,183
Investments	8	**—**	3,333,500
Accounts receivable	9	**1,196,062**	1,813,992
Prepaid expenses and deposits		**796,744**	870,286
		4,598,515	8,380,961
Non-current assets			
Exploration and evaluation assets	10	**43,484,822**	40,065,106
Property, plant and equipment	11	**55,498,465**	62,645,297
		98,983,287	102,710,403
TOTAL ASSETS		**103,581,802**	111,091,364
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	12	**6,038,478**	8,230,602
Current portion of long term debt	13	**—**	22,197,243
Decommissioning liabilities	14	**205,836**	205,429
		6,244,314	30,633,274
Non-current liabilities			
Other liabilities	15	**4,225,734**	3,798,280
Long term debt	13	**23,063,945**	—
Decommissioning liabilities	14	**1,987,145**	1,966,719
		29,276,824	5,764,999
TOTAL LIABILITIES		**35,521,138**	36,398,273
SHAREHOLDERS' EQUITY			
Share capital	16	**204,366,683**	204,366,683
Warrants	16	**647,034**	—
Accumulated deficit		**(136,953,053)**	(129,673,592)
TOTAL EQUITY		**68,060,664**	74,693,091
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**103,581,802**	111,091,364
SUBSEQUENT EVENTS	30		

The accompanying notes form part of these annual financial statements.

Statement of Loss and Other Comprehensive Loss

For the year ended December 31, 2018 (Expressed in Canadian dollars)

		Year ended December 31,	
	Note	**2018 C$**	2017 C$
Production revenue from crude oil and natural gas sales	17	**15,364,294**	21,443,207
Royalties		**(1,163,804)**	(2,793,481)
		14,200,490	18,649,726
Trading revenue from natural gas sales	17	**1,070,898**	1,240,648
Trading cost from natural gas purchases		**(409,440)**	(499,859)
		661,458	740,789
Net revenue		**14,861,948**	19,390,515
Operating costs		**(5,353,764)**	(5,746,160)
General and administrative costs ("**G&A cost**")		**(5,584,534)**	(6,149,973)
Depletion and depreciation		**(5,368,825)**	(6,179,377)
Direct write-off of exploration and evaluation assets	10	**(1,790,883)**	(900,685)
Impairment losses of property, plant and equipment	18	**(1,962,280)**	(2,212,697)
Loss from operations		**(5,198,338)**	(1,798,377)
Other income	29	**812,703**	49,066
Transaction costs		**—**	(3,003,350)
Finance expenses	22	**(2,893,826)**	(6,884,131)
Loss before income taxes		**(7,279,461)**	(11,636,792)
Income taxes	23	**—**	—
Loss and comprehensive loss for the year attributable to owners of the Company		**(7,279,461)**	(11,636,792)
Loss per share			
Basic and diluted	24	**(0.03)**	(0.04)

The accompanying notes form part of these annual financial statements.

Statement of Changes in Shareholders' Equity

For the year ended December 31, 2018 (Expressed in Canadian dollars)

	Note	Share capital C$	Warrants C$	Accumulated deficit C$	Total equity C$
Balance as at January 1, 2017		169,247,367	—	(118,036,800)	51,210,567
New shares issued	16	38,131,133	—	—	38,131,133
Share issue costs	16	(3,011,817)	—	—	(3,011,817)
Loss for the year		—	—	(11,636,792)	(11,636,792)
Balance as at December 31, 2017		204,366,683	—	(129,673,592)	74,693,091
Balance as at January 1, 2018		**204,366,683**	**—**	**(129,673,592)**	**74,693,091**
Warrants	16	**—**	**647,034**	**—**	**647,034**
Loss for the year		**—**	**—**	**(7,279,461)**	**(7,279,461)**
Balance as at December 31, 2018		**204,366,683**	**647,034**	**(136,953,053)**	**68,060,664**

The accompanying notes form part of these annual financial statements.

Statement of Cash Flows

For the year ended December 31, 2018 (Expressed in Canadian dollars)

		Year ended December 31,	
	Note	2018 C$	2017 C$
Operating activities			
Loss for the year		**(7,279,461)**	(11,636,792)
Adjustments for:			
Depletion and depreciation		**5,368,825**	6,179,377
Non-cash finance expenses		**209,660**	598,083
Unrealized foreign exchange (gain)/loss		**(12,624)**	77,709
Direct write-offs on exploration and evaluation assets		**1,790,883**	900,685
Impairment losses of property, plant and equipment		**1,962,280**	2,212,697
Funds from operations		**2,039,563**	(1,668,241)
Changes in non-cash working capital	7	**1,474,482**	(381,231)
Net cash generated from/(used in) operating activities		**3,514,045**	(2,049,472)
Investing activities			
Expenditures on property, plant and equipment		**(79,683)**	(2,099,064)
Expenditures on exploration and evaluation assets		**(7,882,275)**	(16,764,568)
Investments	8	**3,333,500**	(3,333,500)
Net cash used in investing activities		**(4,628,458)**	(22,197,132)
Financing activities			
Proceeds from share issuance, net of issue cost		**—**	36,146,427
Proceeds from debt, net	13	**18,730,281**	—
Proceeds from warrants, net	16	**647,034**	—
Proceeds from bank loan		**—**	2,791,804
Repayment of bank loan	13	**(18,033,000)**	(16,216,889)
Net cash generated from financing activities		**1,344,315**	22,721,342
Effect of exchange rate fluctuation on cash and cash equivalents		**12,624**	(77,709)
Increase/(decrease) in cash and cash equivalents		**242,526**	(1,602,971)
Cash and cash equivalents at the beginning of the year		**2,363,183**	3,966,154
Cash and cash equivalents at the end of the year		**2,605,709**	2,363,183
Supplementary information:			
Interest paid		**2,358,125**	5,813,111

The accompanying notes form part of these annual financial statements.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

1 CORPORATE INFORMATION

Persta Resources Inc. (the "**Company**" or "**Persta**") was incorporated in Calgary, Alberta, Canada under the Business Corporations Act (Alberta) in 2005. Persta is an exploration and development company pursuing petroleum and natural gas production in Alberta, Canada. The Company's registered office is located at 15th Floor, Bankers Court, 850-2nd Street SW, Calgary, Alberta T2P 0R8, Canada, and its head office is located at 3600, 888-3rd Street SW, Calgary, Alberta T2P 5C5, Canada.

Pursuant to an initial public offering on March 10, 2017, the Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and traded under the stock code of "3395". The Company has been a reporting issuer under the Securities Act (Alberta) since October 2, 2018.

2 BASIS OF PREPARATION

(a) Statement of compliance

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

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing these Financial Statements, the Company has adopted all applicable new and revised IFRSs to the year ended December 31, 2018, except for any new standards or interpretations that are not yet effective for the year ended December 31, 2018. The revised and new accounting standards and interpretations issued but not yet effective are set out in Note 5.

The Financial Statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

2 BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgments

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

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

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

The Financial Statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events, considered in the aggregate, indicate that it is probable that the Company will not be able to meet its obligations as they become due for a period at least, but not limited to twelve months from the balance sheet date. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt. The mitigating effect of management's plans are considered to the extent that; (i) it is probable that the plans will be effectively implemented and, if so, (ii) it is probable that the plans will mitigate the conditions or events that raise significant doubt about the Company's ability to continue as a going concern.

After considering its plans to mitigate the going concern risk, management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Furthermore, the estimates made by management in reaching this conclusion are based on information available as of the date these Financial Statements were authorized for issuance.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been applied consistently in all years presented in these Financial Statements.

(a) Joint arrangements

Joint arrangements are contractual arrangements 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. As such, the Financial Statements only include the Company's share of its assets, liabilities and transactions associated with its joint operations.

(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 is comprised of interest income. Finance expenses are 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 and other fees 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

The Company recognizes financial assets and financial liabilities on the statements of financial position when the Company becomes a party to the contract. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or when the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized from the consolidated financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

Financial assets, financial liabilities and derivatives are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instrument's classification, as described below.

- **Amortized cost**

  A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of the cash flows; and all contractual cash flows represent only principal and interest on that principal. All financial liabilities are measured at amortized cost using the effective interest method except for liabilities incurred for the purposes of selling or repurchasing in the short-term liabilities, if they are held-for trading and those that meet the definition of a derivative.

- **Fair value through other comprehensive income ("FVTOCI")**

  A financial asset shall be measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest ("SPPI") on the principal amount outstanding.

- **Fair value through profit or loss ("FVTPL")**

  All financial assets that do not meet the definition of being measured at amortized cost or FVTOCI are measured at FVTPL, this includes all derivative financial assets. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. For financial assets and liabilities, the Company may make an irrevocable election to designate an asset at FVTPL. If the election is made it is irrevocable, meaning that asset, liability, or group of financial instruments must be recorded at FVTPL until that asset, liability or group of financial instruments are derecognized.

  Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

  Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of commodity in accordance with the Company's expected purchase, sale or usage fall within the normal purchase or sale exemption and are accounted for as executory contracts.

  Financial assets are assessed with an expected credit loss model. The new impairment model applies to financial assets measured at amortized cost, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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. E&E expenditures, including the costs of acquiring licences and directly attributable general and administrative costs ("**G&A**"), geological and geophysical costs, other direct costs of exploration (drilling, trenching, sampling and evaluating the technical feasibility and commercial viability of extraction) and appraisal are accumulated and capitalized as E&E assets. 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 is determined, 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. Technical feasibility and commercial viability is generally considered to be determined when proved plus probable reserves are determined to exist and commercial production of oil and gas has commenced on the licence or field.

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

(f) Property, plant and equipment

Property, plant and equipment ("**PP&E**") 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, including directly attributable G&A costs. Improvements that increase the capacity or extend the useful lives of related assets are also capitalized.

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

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairments

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

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

Value in use is estimated by consideration of the following:

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

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

FVLCD is estimated by consideration of the following:

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

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

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

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

An impairment loss is recognized if the carrying amount of an asset or a 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.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income taxes

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

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

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

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.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Related party transactions (Continued)

(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 transaction when there is a transfer of resources or obligations between related parties.

(n) Cash and cash equivalents

Cash and cash equivalents can consist of cash in bank and short-term highly liquid investments with original maturities of three months or less.

(o) Loss per share

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

Notes to the Financial Statements
For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Critical Judgments in Applying Accounting Policies

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

(i) Identification of CGUs

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

(ii) Identification of impairment indicators

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty for the year ended December 31, 2018 that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

(i) Reserves

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

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Key sources of estimation uncertainty (Continued)

(i) Reserves (Continued)

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

(ii) Decommissioning obligations

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

(iii) Impairment of non-financial assets

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

(iv) Liquidity

The Company has a working capital deficiency as at December 31, 2018 of C$1.6 million and incurred a loss for the year ended December 31, 2018 of C$7.3 million. As at December 31, 2018 the Company had a C$4.2 million bank loan and C$20 million of subordinated debt ("**SubDebt**") outstanding (refer to Note 13).

The Company was not in compliance with the net debt to run rate EBITDA covenant of the SubDebt agreement as at September 30, 2018 and obtained a waiver for that covenant breach. Effective December 31, 2018 the Company and the SubDebt lender ("**SubLender**") amended the net debt to run rate EBITDA covenant effective for the quarter ended December 31, 2018 and thereafter. At December 31, 2018, the Company was in compliance with all covenants it is subject to under the bank loan and SubDebt.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Key sources of estimation uncertainty (Continued)

(iv) Liquidity (Continued)

In March 2019 the Company and the SubLender amended the SubDebt agreement such that the net debt to run rate EBITDA covenant was eliminated for calendar 2019. The SubLender further agreed to defer the monthly interest due for the SubDebt starting January 1, 2019. The interest will be deferred until the earlier of the repayment of the bank loan or January 1, 2020.

The bank loan is subject to a semi-annual borrowing base review, and the next review is scheduled to occur in the second quarter of 2019. That review may result in a reduction in the funds available to the Company.

Additional funds are required to enable the Company to further develop its oil and gas properties. Subject to approval by the SubLender, an additional C$5 million of SubDebt is available under the amended SubDebt agreement. On March 25, 2019, the Company announced it entered into a subscription agreement with a subscriber to conditionally issue 23.6 million common shares at a price of HK$1.50 per share for gross proceeds of HK$35.4 million (approximately C$6 million) (the "**Subscription**"). The Subscription is anticipated to close on or before May 14, 2019.

There can be no guarantees that the Company will be able to access any additional funds pursuant to the amended SubDebt agreement, nor can there be any guarantee that additional funds will be raised from the Subscription.

Management believes the borrowing base review with the bank will not result in a material reduction in the borrowing base below the level of bank debt currently outstanding, and that the necessary funds will be available to enable it to develop its properties and meet its obligations as they become due.

(v) Taxes

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

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

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted funds from operations. During the years ended December 31, 2018 and 2017, the Company has not recorded any deferred tax assets or liabilities due to the uncertainty of future taxable profits.

Notes to the Financial Statements

For the year ended December 31, 2018

(Expressed in Canadian dollars unless otherwise indicated)

5 CHANGES IN ACCOUNTING POLICIES

IFRS 9 — Financial Instruments replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. As of January 1, 2018, the Company adopted all of the requirements of IFRS 9. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("**FVTOCI**") and fair value through profit or loss ("**FVTPL**"). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. IFRS 9 has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have any impact on the Financial Statements of the Company. Accounts receivable, accounts payable, accrued liabilities and long term debt are classified and measured at amortized cost. The Company does not have any asset contracts and debt investments measured at FVTOCI.

IFRS 9 also contains a new hedge accounting model, however the Company does not apply hedge accounting to any of its risk management contracts. The adoption of IFRS 9 has been applied retrospectively and did not result in a change in the carrying value of any of the Company's financial instruments on the transition date.

IFRS 15 — Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. The Company adopted the standard on January 1, 2018 using the modified retrospective approach. There were no changes to reported net earnings or retained earnings as a result of adopting IFRS 15. IFRS 15 requires additional disclosures to disclose disaggregated revenue by product type, refer to note 17.

Revenue from the sale of natural gas, natural gas liquids, condensate and crude oil (collectively the "**products**") is recognized based on the consideration specified in contracts with customers and when the control of the products are transferred to the customers and collection is reasonably assured. The revenue is based on prices specified in the contract and the revenue is recognized when it transfers control of the product to a customer. The sales or transaction price of the Company's products to customers are made pursuant to contracts based on prevailing commodity pricing and adjusted by quality and equalization adjustments. The revenue is collected on the 25th day of the month following production.

IFRS 16 — Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (the "**lessee**") and the supplier (the "**lessor**") and replaces the previous leases standard, IAS 17 Leases. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the process of evaluating the impact of IFRS 16 on its financial statements and the extent of the impact has not yet been determined.

Notes to the Financial Statements

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(Expressed in Canadian dollars unless otherwise indicated)

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, investments, accounts receivable, deposits, accounts payable and accrued liabilities

The fair value of cash and cash equivalents, investment, accounts receivable, deposits and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2018, the fair value of these balances approximated their carrying value due to their short term to maturity.

(b) Loans

As at December 31, 2018, the fair value of the Company's bank loans approximates their carrying value, as they bear interest at floating rates, the premium charged as at December 31, 2018 was indicative of the Company's current credit spread and the loans are due on demand.

(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 the above criteria. The fair value of the Company's loans have been measured using:

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

During the year ended December 31, 2018, there were no transfers between Level 1, Level 2 and Level 3 classified assets and liabilities.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

7 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	As at December 31,	
	2018	2017
	C$	C$
Deposits with banks and other financial institutions	**2,600,382**	2,358,542
Cash on hand	**5,327**	4,641
Cash and cash equivalents in the statement of financial position and statement of cash flows	**2,605,709**	2,363,183

(b) Supplementary cash flows information

	Year ended December 31,	
	2018	2017
	C$	C$
Changes in non-cash working capital and other liabilities:		
Accounts receivable	**(617,930)**	1,414,063
Prepaid expenses and deposits	**(73,542)**	514,912
Accounts payable and accrued liabilities and other liabilities	**1,764,669**	8,571,653
	1,073,197	10,500,628
Add: Movement in non-cash working capital and other liabilities directly included in investing and financing activities	**401,285**	(10,881,859)
Movement in non-cash working capital directly included in operating activities	**1,474,482**	(381,231)

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

8 INVESTMENTS

	As at December 31,	
	2018 **C$**	2017 C$
Short term investments	—	3,333,500

Prior to April 25, 2018, the Company held a Guaranteed Investment Certificate ("**GIC**") amounting to C$3,223,500 that was in place as a security against a C$3,223,500 irrevocable standby letter of credit for the construction of the necessary facilities related to the Company's Dismal Creek South Metering Station. This GIC was for a period of one year from the date of issuance on March 15, 2017, carried interest at 0.45% per annum, and was renewed for one year on the same terms expiring March 15, 2019. On May 7, 2018, the Company terminated this GIC receiving C$3,228,477 (interest included), as the Company obtained a performance services guarantee ("**PSG**") from Export Development Canada ("**EDC**") to guarantee qualifying letters of credit ("**L/C**"). Refer to Note 27(e).

The Company also held a GIC amounting to C$110,000 that was in place as a security against a C$110,000 irrevocable letter of credit for transportation services. This GIC was for a period of one year from the date of issuance on January 5, 2017, carried a 0.45% interest per annum and was renewed for one year on the same terms expiring January 5, 2019. On May 7, 2018, the Company terminated this GIC receiving C$110,323 (interest included), as the Company obtained a PSG from EDC to guarantee qualifying L/C, refer to Note 27(e). The irrevocable standby letter of credit was automatically extended for one year on January 5, 2018 and expired on January 5, 2019.

9 ACCOUNTS RECEIVABLE

	As at December 31,	
	2018 **C$**	2017 C$
Trade receivables	**1,196,062**	1,813,992

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

9 ACCOUNTS RECEIVABLE (Continued)

(a) Aging analysis of trade receivables

As at December 31, 2018 and December 31, 2017, the aging analysis of trade receivables (included in accounts receivable), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at December 31,	
	2018	2017
	C$	C$
Within 1 month	**1,196,062**	1,798,983
1 to 3 months	**—**	144
Over 3 months	**—**	14,865
	1,196,062	1,813,992

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

(b) Impairment of accounts receivable

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Company determines that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

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, and no impairment loss has been recognized for the years ended December 31, 2018 and 2017.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

10 EXPLORATION AND EVALUATION ASSETS

	As at December 31,	
	2018 C$	2017 C$
Balance, beginning of year	**40,065,106**	14,562,811
Additions	**5,210,599**	26,402,980
Write-offs	**(1,790,883)**	(900,685)
Balance, end of year	**43,484,822**	40,065,106

Exploration and evaluation ("**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 in sufficient quantity to warrant commercial development. Transfers are made to property, plant and equipment ("**PP&E**") as proven or probable reserves are determined. E&E assets are expensed due to uneconomic drilling and completion activities and lease expiries.

During the year ended December 31, 2018, the Company completed one well and incurred E&E costs totalling C$5,210,599 (December 31, 2017: C$26,402,980). Included in E&E additions are G&A costs of C$524,625 (December 31, 2017: C$674,652) which were capitalized in accordance with the Company's accounting policies. Based on the Company's accounting policy, once the technical feasibility and commercial viability of the extraction of resources in an area of interest are determined, 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 PP&E. As at December 31, 2018, the technical feasibility and commercial viability of the four wells drilled in 2017 has not been demonstrated. In 2019, subject to availability of capital, the Company anticipates to complete extended production tests and evaluate development options for these wells.

For the year ended December 31, 2018, the Company wrote-off C$1,790,883 (December 31, 2017: C$900,685) of E&E assets attributable to land lease expiries. As at December 31, 2018, the Company concluded that there were no trigger for impairment on its E&E assets.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT

	Cost C$	Accumulated depletion and depreciation C$	Net book value C$
Balance, January 1, 2017	152,091,843	(83,803,018)	68,288,825
Additions	2,315,400	—	2,315,400
Change in decommissioning obligations	433,146	—	433,146
Write-offs	(2,212,697)	—	(2,212,697)
Depletion and depreciation	—	(6,179,377)	(6,179,377)
Balance, December 31, 2017	152,627,692	(89,982,395)	62,645,297
Balance, January 1, 2018	**152,627,692**	**(89,982,395)**	**62,645,297**
Additions	**203,679**	**—**	**203,679**
Change in decommissioning obligations	**(19,405)**	**—**	**(19,405)**
Impairment loss	**(1,962,280)**	**—**	**(1,962,280)**
Depletion and depreciation	**—**	**(5,368,826)**	**(5,368,826)**
Balance, December 31, 2018	**150,849,686**	**(95,351,221)**	**55,498,465**

Substantially all of PP&E consists of development and production assets. Included in PP&E additions for the year ended December 31, 2018 are G&A costs of C$13,432 (December 31, 2017: C$46,338) which were capitalized in accordance with the Company's accounting policies.

Depletion, depreciation and impairment charges

Depletion and depreciation, impairment of PP&E, and any reversal thereof, are recognized as separate line items in the statement of loss and other comprehensive loss. The depletion calculation for the year ended December 31, 2018 includes estimated future development costs of C$24,490,000 (December 31, 2017: C$24,380,000) associated with the development of the Company's proved plus probable reserves.

For the year ended December 31, 2018, there were no write-offs (December 31, 2017: C$2,212,697) of PP&E attributable to land lease expiries.

As December 31, 2018, the Company has identified indicators of impairment in its PPE assets in the Basing Alberta CGU attributable to declines in natural gas prices, and no indicator of impairment in its PPE assets in the Dawson CGU. The Company calculated the recoverable amount of the Basing Alberta CGU based on forecasted cash flows from proved plus probable reserves using a 12% pre-tax discount rate. Based on the assessment as at December 31, 2018, the carrying amount of the Company's Basing CGU was higher than its recoverable amount. As such, the Company recognized an impairment loss of C$1,962,280 (December 31, 2017: nil) for this CGU (Note 18).

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31,	
	2018	2017
	C$	C$
Trade payables	**651,209**	182,386
Accrued liabilities	**1,432,903**	2,679,869
Accrued compensation for independent non-executive directors per Phantom Unit Plan (Note)	**373,642**	262,833
Subtotal	**2,457,754**	3,125,088
Other payables	**3,580,724**	5,105,514
Total	**6,038,478**	8,230,602

Note: The accrued compensation for independent non-executive directors per Phantom Unit Plan is accrued quarterly and will be paid in accordance with the terms set out in the Phantom Unit Plan.

As at December 31, 2018, there were C$3,095,029 of unpaid capital expenditures included in other payables (December 31, 2017: C$4,348,191).

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

Aging analysis of trade payables and accrued liabilities

As at December 31, 2018 and December 31, 2017, the aging analysis of trade payables and accrued liabilities (included in accounts payable and accrued liabilities) is as follows:

	As at December 31,	
	2018	2017
	C$	C$
Within 1 month	**1,534,348**	1,226,481
1 to 3 months	**402,865**	1,635,774
Over 3 months but within 6 months	**146,899**	—
	2,084,112	2,862,255

Notes to the Financial Statements

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13 LONG TERM DEBT

	As at December 31,	
	2018	2017
	C$	C$
Bank loan	**4,164,243**	22,197,243
Subordinated debt	**20,000,000**	—
Less: Deferred financing costs	**(1,100,298)**	—
Balance, end of year	**23,063,945**	22,197,243
Current	**—**	22,197,243
Long term	**23,063,945**	—

(a) Bank loan

On August 24, 2017, the Company and its lender (the "**Lender**") agreed to an early termination of its existing facility and then entered into a new facility (the "**New Facility**"). A financing fee totaling C$4.3 million was paid to the Lender upon termination of the old facility and it has been recognized under finance expenses.

The maximum debt available under the New Facility is C$100 million, maturing on September 22, 2020 (36 months) from closing, and is subject to a semi-annual review of the borrowing base by the Lender. The initial New Facility draw was capped at C$24 million, and reduced to C$18.5 million during the period. With the closing of the SubDebt (as defined below), the New Facility is capped at C$10 million until the Company has repaid the SubDebt in full. Pursuant to the terms of the Second Amending Agreement to the SubDebt Agreement, if the bank loan is not paid in full on or prior to January 1, 2020, the SubDebt shall be in deficit and due upon demand.

The New Facility carries interest of 4% plus one month Canadian Dealer Offered Rate ("**CDOR**"means the arithmetic average of the yields to maturity for bankers' acceptances quoted on the Reuter's Canadian Deposit Offered Rate) calculated on a 365 day basis on drawn amounts and payable in cash on a monthly basis in arrears and a commitment fee equal to 1% per annum will be payable on all amounts committed but undrawn, payable quarterly in arrears. As at December 31, 2018, the applicable effective interest rate on the New Facility was 5.7%.

The New Facility is secured by fixed and floating first priority perfected security interests in the properties and all assets, tangible and intangible, owned by the Company and thereafter acquired by the Company, including, but not limited to, all real and personal property, goods, accounts, contract rights, assignable licenses and assignable permits. The New Facility is subject to the following financial covenants: (a) maintenance at the end of each fiscal quarter a working capital ratio not less than 1.0:1.0; and (b) as measured at the end of each fiscal quarter, total debt to adjusted EBITDA not exceeding 3.0/1.0 through the fiscal quarter ended September 30, 2018 and 2.5/1.0 thereafter (Total debt and EBITDA as defined in the loan agreement). The Company was in compliance with these covenants as at December 31, 2018.

Notes to the Financial Statements

For the year ended December 31, 2018
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13 LONG TERM DEBT (Continued)

(a) Bank loan (Continued)

Under the New Facility agreement, "total debt" is defined as the consolidated debt of the Company and including any liability; and "adjusted EBITDA" is defined as earnings before deduction of finance expenses, income taxes, depletion and depreciation, write-offs, transaction costs and share-based compensation. With the closing of the SubDebt (as defined below), "total debt" is defined as the consolidated debt of the Company, including any liability and excluding debt defined as other liabilities (Note 15).

The principal and all accrued and unpaid interest and fees are due on the maturity date or in accordance with the terms of the New Facility. The Company maintains no letter of credit, as at December 31, 2018 (December 31, 2017: C$558,000) for transportation services in relation to the New Facility.

(b) Subordinated debt

On May 16, 2018, the Company completed a subordinated debt (the "**SubDebt**") financing with an arm's length lender (the "**SubLender**") totaling C$25 million. The SubDebt has a term of 60 months, and bears interest at 12% per annum, compounded and payable monthly. The Company has the option to prepay as follows: (i) after 12 months, the right to prepay C$10 million subject to a prepayment fee of 1% of the amount prepaid; and (ii) after 18 and up to 36 months, the right to prepay any SubDebt amount outstanding in tranches of C$5 million, subject to a prepayment fee of 3% of the amount prepaid; and (iii) after 37 months, the right to prepay any SubDebt amount outstanding in tranches of C$5 million, subject to a prepayment fee of 1% of the amount prepaid. An exit fee of C$0.75 million is payable when the SubDebt facility is repaid or at maturity on May 16, 2023.

The SubDebt is secured by a general security agreement over all present and after-acquired property of the Company subject to the fixed and floating first priority held by the Lender. Prior to December 2018, the SubDebt was subject to the following covenants: (a) maintenance at the end of each fiscal quarter a working capital ratio not less than 1.0:1.0; and (b) as measured at the end of each fiscal quarter, net debt to run rate EBITDA not exceeding 4.0/1.0 through the fiscal quarter ending March 2019, and 3.0/1.0 through the fiscal quarter ending March 31, 2020 and 2.5/1.0 thereafter; and (c) net debt to total proved reserves not exceeding 0.75/1.0 through the fiscal quarter ending March 31, 2019, and not exceeding 0.60/1.0 thereafter; and (d) maintaining the Company's Alberta Energy liability management ratio above 2.0/1.0.

Pursuant to the SubDebt agreement, no later than September 30 in each year, the Company must enter into arrangements to protect against fluctuations in commodity prices for 80% of its forecast production volume from proved Developed Producing Reserves.

Effective December 31, 2018, the Company and SubLender amended the SubDebt agreement (the "**First Amending Agreement**") such that run rate EBITDA for the covenant calculation was changed to trailing twelve months ("**TTM**") EBITDA, and for the fiscal quarter ended December 31, 2018, net debt to TTM EBITDA would not exceed 4.75/1.0.

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13 LONG TERM DEBT (Continued)

(b) Subordinated debt (Continued)

Under the terms of the SubDebt agreement, "net debt" is defined as the consolidated debt of the Company, less cash held, and excluding debt defined as other liabilities (Note 15). Under the terms of the First Amending Agreement, TTM EBITDA is defined as the annualized earnings before deduction of interest expenses/income, income taxes, depletion and depreciation, write-offs, unrealized hedging gains/losses and share-based compensation for the four most recent fiscal quarters.

The Company was not in compliance with the net debt to run rate EBITDA covenant of the SubDebt agreement as at September 30, 2018 and obtained a waiver for that covenant breach. After giving effect to the First Amending Agreement, the Company is in compliance with all covenants for the New Facility and SubDebt as at December 31, 2018.

In connection with the SubDebt, the Company sold 8 million share purchase warrants to the SubLender for C$750,000, refer to Note 16(c). The Company completed an initial draw of C$20.0 million from the SubDebt at closing. Pursuant to the Second Amending Agreement, subject to approval by the SubLender, the Company has an additional C$5.0 million of SubDebt available.

C$1.25 million in costs have been incurred in relation to the SubDebt and such amounts have been paid to the SubLender. These costs have been capitalised in long term debt and amortised until the maturity of the SubDebt.

In March 2019, the Company and SubLender further amended the SubDebt agreement (the "**Second Amending Agreement**"). The Second Amending Agreement eliminates the TTM EBITDA covenant for 2019, and implements a deferral of the monthly interest payable to the SubLender starting January 1, 2019 until the earlier of the repayment of the New Facility or January 1, 2020. The Company incurred a fee of C$1.0 million pursuant to the Second Amending Agreement. The fee was deemed to be incurred with the signing of the agreement, but capitalized as an increase of the SubDebt principal, such that the total amount owed under the SubDebt increased to C$21 million, and the total SubDebt available subject to SubLender approval increases to C$26 million. As such, no cash cost will be incurred in relation to the fee in 2019.

In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging.

Due to this volatile economic environment, it is possible that the Company could breach the covenants noted within its facility and SubDebt agreements in future periods. If a covenant violation does occur, this will represent an event of default under the facility and the lenders will have the right to demand repayment of all amounts owed under the facility and SubDebt.

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14 DECOMMISSIONING LIABILITIES

The total future decommissioning obligations were estimated based on the Company's net ownership interest in petroleum and natural gas assets including well sites, gathering systems and facilities, the estimated costs to abandon and reclaim the petroleum and natural gas assets and the estimated timing of the costs to be incurred in future periods. As at December 31, 2018, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations to be approximately C$3.0 million which will be incurred between 2019 and 2067. The majority of these costs will be incurred by 2037. As at December 31, 2018, an average risk free rate of 2.04% (December 31, 2017: 1.87%) and an inflation rate of 2% (December 31, 2017: 2%) were used to calculate the decommissioning obligations.

The following table reconciles the Company's decommissioning liabilities:

	As at December 31,	
	2018	2017
	C$	C$
Balance, beginning of year	**2,172,148**	1,708,047
Change in estimate	**(19,405)**	(39,853)
Liabilities incurred	**—**	472,999
Accretion expense	**40,238**	30,955
Balance, end of year	**2,192,981**	2,172,148
Current	**205,836**	205,429
Long-term	**1,987,145**	1,966,719

15 OTHER LIABILITIES

	As at December 31,	
	2018	2017
	C$	C$
Other liabilities	**4,225,734**	3,798,280

During the year ended December 31, 2017, the Company entered into the Master Turnkey Drilling and Completion Contract (the "**Contract**") with an arm's length private company. Based on the Contract, the Company shall pay the invoices either within 90 days from the date of the invoice, or by installments as follows: (i) 15% due six months from the date of invoice, (ii) 35% due 12 months from the date of invoice and (iii) 50% due 24 months from the date of invoice. Any invoice balance outstanding for more than 90 days will bear interest at 4.24% per annum, calculated annually and prorated for the number of months outstanding with no compounding. The outstanding balances are unsecured. The Company has committed to use the services of the private company to drill and complete a minimum of five wells or certain penalties would be incurred should the Company fail to do so.

Notes to the Financial Statements

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15 OTHER LIABILITIES (Continued)

As at December 31, 2018, the Company has completed one well per the Contract, incurring total capital expenditure of C$8,009,704 (which included capital expenditure of C$4,192,626 in 2017). In accordance with the payment terms, the Company has classified C$2,992,964 within current liabilities with the remaining C$4,225,734 as other liabilities.

16 SHARE CAPITAL

(a) Authorized:

The Company is authorized to issue an unlimited number of common shares.

(b) Issued:

	Common Shares	
	Number	Amount C$
At January 1, 2017	208,706,520	169,247,367
Shares issued for cash	69,580,000	38,131,133
Share issue costs	—	(3,011,817)
At December 31, 2017 and December 31, 2018	278,286,520	204,366,683

There were no share capital transactions during the year ended December 31, 2018.

During the year ended December 31, 2017, the Company conducted the following transactions:

(i) On March 10, 2017, the Company was successfully listed on the Stock Exchange and issued 69,580,000 new shares at a price of HK$3.16 per share (C$0.55 per share), raising gross proceeds of HK$219,872,800 (C$38,131,133). The costs associated with the issuance of new shares amounted to C$3,011,817.

(c) Warrants:

On May 16, 2018, the Company conditionally issued 8.0 million warrants to the SubLender for a consideration of C$750,000. The warrants were conditional on approval from the Stock Exchange and the Company's shareholders, which was obtained on August 13, 2018 through a special meeting of shareholders.

The warrants have an exercise price of HK$3.16 per warrant and a term of 5 years. The fair value of these warrants was estimated to be C$750,000 using the Black-Scholes-Merton option pricing model based on a volatility of 59.9%, risk-free interest rate of 2.12%, expected life of 5 years, no dividend yield and an exchange rate of HK$1 per C$0.1650. As at December 31, 2018, C$102,966 in costs were incurred for the sale of the warrants.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

17 REVENUE

The Company sells its products pursuant to variable-price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The amount of each significant category of revenue recognized for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31,	
	2018	2017
	C$	C$
Production revenue from natural gas, natural gas liquids and condensate sales	**13,549,538**	19,961,130
Production revenue from crude oil sales	**1,814,756**	1,482,077
	15,364,294	21,443,207
Trading revenue from natural gas sales	**1,070,898**	1,240,648

For the year ended December 31, 2018, the Company's customer base includes two customers (2017: two customers), with whom transactions have exceeded 10% of the Company's revenues. For the year ended December 31, 2018, revenues from sales to these customers amounted to C$13,916,748 (December 31, 2017: C$18,043,366).

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

18 IMPAIRMENT LOSS

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.

As at December 31, 2018 and 2017, management identified impairment triggers for its Basing, Alberta CGU due to declines in forecasted natural gas prices, and no impairment triggers for its Dawson, Alberta CGU.

Based on its assessment as at December 31, 2018, the carrying amount of the Company's Basing CGU was higher than its recoverable amount. As such, the Company recognized an impairment loss of C$1,962,280 for the year ended December 31, 2018.

Based on the assessment as at December 31, 2017, the carrying amount of the Company's Basing CGU was lower than its recoverable amount. As such, no impairment loss was recognized.

The recoverable amount of each CGU was estimated based upon the higher of the value in use or FVLCD. In each case, the value in use methodology was used. In determining value in use, forecasted cash flows after tax discount rate at 12 percent was used, with escalated prices and future development costs, as obtained from the independent reserve report.

As at December 31, 2018, the Company utilized the following benchmark prices to determine the forecast prices in the value in use calculation:

Year	Edmonton Oil (C$/Bbl)	AECO Gas (C$/mmbtu)
2019	63.33	1.85
2020	75.32	2.29
2021	79.75	2.67
2022	81.48	2.90
2023	83.54	3.14
2024	86.06	3.23
2025	89.09	3.34
2026	92.62	3.41
2027	94.57	3.48
2028	96.56	3.54
2029[1]	+2.0%/yr	+2.0%/yr

(1) Approximate percentage change in each year after 2029 to the end of the reserve life.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

18 IMPAIRMENT LOSS (Continued)

As at December 31, 2017, the Company utilized the following benchmark prices to determine the forecast prices in the value in use calculation:

Year	Edmonton Oil (C$/Bbl)	AECO Gas (C$/mmbtu)
2018	70.25	2.20
2019	70.25	2.54
2020	70.31	2.88
2021	72.84	3.24
2022	75.61	3.47
2023	78.31	3.58
2024	81.93	3.66
2025	85.54	3.73
2026	88.35	3.80
2027	90.22	3.88
2028(1)	+2.0%/yr	+2.0%/yr

(1) Approximate percentage change in each year after 2028 to the end of the reserve life.

19 PERSONNEL COSTS, REMUNERATION POLICY AND AUDITORS' REMUNERATION

Personnel costs incurred during the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31,	
	2018	2017
	C$	C$
Personnel costs		
Salaries, wages and other benefits	**2,167,774**	2,289,072
Retirement benefits contribution	**33,392**	33,702
	2,201,166	2,322,774

The Company's remuneration and bonus policies are determined by the performance of individual employees.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

19 PERSONNEL COSTS, REMUNERATION POLICY AND AUDITORS' REMUNERATION (Continued)

The emolument of the executives are recommended by the remuneration committee of the Company, having regard to the Company's operating results, the executives' duties and responsibilities within the Company and comparable market statistics.

Phantom Unit Plan for independent non-executive directors

The Company has in place a phantom unit plan for its independent non-executive directors effective March 10, 2017 and applied retrospectively started from February 26, 2016 (the "**Phantom Unit Plan**"). In order for the eligible directors to receive the phantom units issued under the Phantom Unit Plan (the "**Phantom Units**"), they need to complete a participation form prior to the commencement of each fee period (i.e. twelve-month period commencing January 1 and ending on December 31). Since 2016, each eligible Director agreed in writing to receive 60% of their fees (i.e. the designated percentage) relating to future services as a director in the form of phantom units under the Phantom Unit Plan, and the eligible directors have agreed to receive C$15,000 quarterly under the Phantom Unit Plan (the "**Phantom Fee**").

Under the terms of the Phantom Unit Plan, the Company calculates the Phantom Units dividing the Phantom Fee by the weighted average-trading price of the Company's common shares for the five days preceding each quarter end multiplied by the number of Phantom Units awarded during the quarter. For the year ended December 31, 2018, total compensation accrued for each director under the Phantom Unit Plan is based on the total number of units awarded in the preceding quarters multiplied by the weighted average-trading price of the Company's common shares for the five days preceding the period end.

During the year ended December 31, 2018, the Company incurred C$110,809 (December 31, 2017: C$122,833) of directors' compensation per the Phantom Unit Plan. As at December 31, 2018, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$373,642 (December 31, 2017: C$262,833).

Upon a director ceasing to be a member of the Board, their Phantom Units may be redeemed by the director for cash at an amount calculated as the number of units redeemed multiplied by the trading price of the Company's shares of the redemption date.

Auditors' remuneration incurred during the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31,	
	2018	2017
	C$	C$
Auditors' remuneration		
— audit services	**174,525**	608,250
— non-audit services	**61,619**	14,648

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

20 DIRECTORS' EMOLUMENTS

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

Year ended December 31, 2018

	Directors' fees C$ (Note 1)	Salaries, allowances and benefits in kind C$	Discretionary bonuses C$	Retirement scheme contributions C$	Sub-Total C$	Share-based payments C$	Total C$
Executive director							
Le Bo	—	430,001	76,000	2,594	508,595	—	508,595
Non-executive director							
Yuan Jing	—	—	—	—	—	—	—
Independent non-executive directors							
Richard Dale Orman	76,936	—	—	—	76,936	—	76,936
Bryan Daniel Pinney	76,936	—	—	—	76,936	—	76,936
Peter David Robertson	76,936	—	—	—	76,936	—	76,936
	230,808	430,001	76,000	2,594	739,403	—	739,403

Note 1: Each of the Non-executive director's compensation is C$100,000 per year and the directors' fees reflect the adjustment for the fair value of the Phantom Unit component.

For the year ended December 31, 2018, there was no amount paid or payable by the Company to the directors (except the directors' compensation per the Phantom Unit Plan) 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. There was no arrangement under which a director has waived or agreed to waive any remuneration during the year ended December 31, 2018.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

20 DIRECTORS' EMOLUMENTS (Continued)

Year ended December 31, 2017

	Directors' fees C$	Salaries, allowances and benefits in kind C$	Discretionary bonuses C$	Retirement scheme contributions C$	Sub-Total C$	Share-based payments C$	Total C$
Executive director							
Le Bo	—	430,001	275,000	2,564	707,565	—	707,565
Non-executive director							
Yuan Jing	—	—	—	—	—	—	—
Independent non-executive directors							
Richard Dale Orman	80,944	—	—	—	80,944	—	80,944
Bryan Daniel Pinney	80,944	—	—	—	80,944	—	80,944
Peter David Robertson	80,944	—	—	—	80,944	—	80,944
	242,832	430,001	275,000	2,564	950,397	—	950,397

21 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one of them was a director (Le Bo) during both the years ended December 31, 2018 and 2017, 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, 2018 C$	Year ended December 31, 2017 C$
Salaries and other emoluments	**994,385**	884,110
Bonus	**74,000**	425,000
Retirement scheme contributions	**12,969**	10,256
	1,081,354	1,319,366

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

21 INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)

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

	Year ended December 31,	
	2018 Number of individuals	2017 Number of individuals
Hong Kong dollars		
Nil–1,000,000	**—**	1
1,000,001–1,500,000	**4**	2
1,500,001–2,000,000	**—**	1
2,000,001–2,500,000	**—**	—
2,500,001–3,000,000	**—**	—
3,500,001–4,000,000	**—**	—
4,500,001–5,000,000	**—**	—

22 FINANCE EXPENSES

	Year ended December 31,	
	2018 C$	2017 C$
Interest expense and financing fees	**2,696,790**	5,864,226
Amortization of debt issue costs	**169,422**	567,128
Loss/(gain) on foreign exchange	**(12,624)**	421,822
Accretion expense	**40,238**	30,955
Total finance expenses	**2,893,826**	6,884,131

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

23 INCOME TAXES

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

	Year ended December 31,	
	2018	2017
	C$	C$
Loss before income taxes	**(7,279,461)**	(11,636,792)
Combined Federal and Provincial tax rate	**27%**	27%
Expected tax benefit	**(1,965,454)**	(3,141,934)
Increase/(decrease) in taxes resulting from:		
— Non-deductible expenses	**2,246**	58,381
— Change in unrecognized deferred tax assets	**1,958,423**	3,083,803
— Change in enacted tax rate and others	**4,785**	(250)
Income tax expense	**—**	—

During the year ended December 31, 2018, the blended statutory tax rate was 27% (December 31, 2017: 27%).

The components of unrecognized deferred tax assets are as follows:

	Year ended December 31, 2018 C$	Year ended December 31, 2017 C$
Deferred tax assets have not been recognized in respect of the following temporary differences:		
PP&E and E&E assets	**26,807,270**	18,412,877
Decommissioning liabilities	**2,192,981**	2,172,148
Non-capital losses and other	**13,954,608**	12,425,390
Share issue costs	**4,554,047**	4,233,255
Total	**47,508,906**	37,243,670

At December 31, 2018, the Company has approximately C$145 million of tax deductions, which include loss carry forwards of approximately C$13.4 million that will begin to expire in 2037.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

24 LOSS PER SHARE

The calculation of basic loss per share is based on the loss and total comprehensive loss of C$7,279,461 and C$11,636,792 for the years ended December 31, 2018 and 2017 respectively is calculated as follows:

	Year ended December 31,	
	2018 Number of shares	2017 Number of shares
Weighted average number of common shares		
At the beginning of the year	**278,286,520**	208,706,520
Effect of new shares issued	**—**	56,617,150
At the end of the year	**278,286,520**	265,323,670
	C$	C$
Loss and total comprehensive loss for the year	**(7,279,461)**	(11,636,792)
Loss per share		
Basic and diluted	**(0.03)**	(0.04)

There were no dilutive potential common shares for the years ended December 31, 2018 and 2017 due to the loss, therefore diluted loss per share is the same as basic loss per share.

25 DIVIDEND

The Board did not approve the payment of a dividend for the years ended December 31, 2018 and 2017.

26 RELATED PARTY TRANSACTIONS

(a) Transactions with key personnel

Key management compensation for the year ended December 31, 2018 totaled C$1,589,949 (December 31, 2017: C$2,026,932).

During the year ended December 31, 2018, the Company incurred C$110,809 (year ended December 31, 2017: C$122,833) of directors' compensation per the Phantom Unit Plan. As at December 31, 2018, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$373,642 (December 31, 2017: C$262,833).

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

26 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with other related parties

There were no other related party transactions during the years ended December 31, 2018 and 2017.

27 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, and joint venture partners and the counterparties to financial derivative contracts. As at December 31, 2018, the Company's accounts receivables consisted of C$1,196,062 (December 31, 2017: C$1,813,992) due from purchasers of the Company's crude oil and natural gas and C$nil (December 31, 2017: C$nil) of other receivables.

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 carrying amount of accounts receivable and cash balances represents the maximum credit exposure. The Company has determined that no allowance for doubtful accounts was necessary as at December 31, 2018. The Company has also not written off any receivables during the year ended December 31, 2018 as accounts receivables were subsequently collected in full. There are no material financial assets that the Company considers past due and at risk of collection. As at December 31, 2018, C$1,196,062 (December 31, 2017: C$1,799,127) of the trade receivables were 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 become due. The Company will 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 adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate profits in the future.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(b) Liquidity risk (Continued)

The following are the contractual maturities of financial liabilities:

	As at December 31, 2018			
	Total C$	Less than 1 year C$	1–3 years C$	3–5 years C$
Accounts payable and accrued liabilities	**6,038,478**	**6,038,478**	**—**	**—**
Other liabilities	**4,225,734**	**—**	**4,225,734**	**—**
Long term debt	**23,063,945**	**—**	**4,164,243**	**18,899,702**
Total	**33,328,157**	**6,038,478**	**8,389,977**	**18,899,702**

	As at December 31, 2017			
	Total C$	Less than 1 year C$	1–3 years C$	3–5 years C$
Accounts payable and accrued liabilities	8,230,602	8,230,602	—	—
Other liabilities	3,798,280	—	3,798,280	—
Long term debt	22,197,243	22,197,243	—	—
Total	34,226,125	30,427,845	3,798,280	—

(c) Market risk

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

Commodity price risk

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

The Company did not enter into any financial derivatives during the years ended December 31, 2018 and 2017.

Notes to the Financial Statements

For the year ended December 31, 2018
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27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(c) Market risk (Continued)

Interest rate risk

As at December 31, 2018, the Company was exposed to changes in interest rates with respect to its bank loans. As at December 31, 2018, a one percent change in the prevailing interest rate for its bank loans would result in an estimated change to net loss of C$41,642 for the year ended December 31, 2018 (December 31, 2017: C$221,972), as a result of changes in interest expenses from variable rate borrowings under its Senior and SubDebt facilities.

Foreign currency risk

The Company manages foreign exchange risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or Hong Kong vendors as well as timing of transactions. The Company recognizes a foreign exchange gain/loss based on the revaluation of monetary items held in Hong Kong Dollars and the value changes with the fluctuation in the HKD/CAD exchange rates. As at December 31, 2018, the Company held HK$0.17 million (C$0.03 million base on HKD/CAD exchange rate at the same date). Changes in the HKD/CAD foreign exchange rate of less than 10% would not materially change the Company's Financial Statements.

(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, subordinated debt, other liabilities 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.

As part of its capital management process, the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts 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.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(d) Capital management (Continued)

The following represents the capital structure of the Company:

	As at December 31,	
	2018	2017
	C$	C$
Long term debt	**23,063,945**	22,197,243
Other liabilities	**4,225,734**	3,798,280
Net working capital deficit (Note 1)	**1,645,799**	55,070
Net debt	**28,935,478**	26,050,593
Shareholders' equity	**68,060,664**	74,693,091
Total capital	**96,996,142**	100,743,684

Note 1: The bank loan in current liability was excluded in net working capital (surplus)/deficit calculation to avoid duplication.

(e) Performance services guarantee ("PSG") facility

On April 25, 2018, the Company obtained a PSG from EDC totaling C$4.4 million. Under the terms of the PSG facility, EDC will guarantee qualifying L/C's on behalf of the Company. Previously, these L/C's were cash collateralized, following approval by EDC the requirement of the Company to hold cash to underwrite the L/C is relieved for the duration of the PSG approval. Under the terms of the PSG facility, the L/C guarantee period is the lesser of one year or the term of the L/C if less than 12 months. The guarantee can be renewed annually for long term L/C's subject to subsequent approval by the EDC. As at December 31, 2018, the Company has PSG coverage for the following L/C's:

Amount	Expiry
C$3,223,500	March 15, 2019
C$110,000	January 5, 2019
C$294,000	May 29, 2019
C$264,000	May 29, 2019

For the year ended December 31, 2018, the Company incurred fees totaling C$70,000 in relation to the PSG facility.

Notes to the Financial Statements

For the year ended December 31, 2018
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28 COMMITMENTS

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business.

	Total C$	Less than 1 year C$	1–3 years C$	4–5 years C$	After 5 years C$
As at December 31, 2018					
Office premise lease	3,590,650	410,360	1,231,080	1,231,080	718,130
Lease of compressors	455,400	237,600	217,800	—	—
Transportation commitment	46,733,231	5,709,341	12,208,604	7,212,287	21,602,999
PSG facility	3,891,500	3,891,500	—	—	—
Total contractual obligations	54,670,781	10,248,801	13,657,484	8,443,367	22,321,129

Office premise lease:

— In June 2017, the Company entered into an office lease for a term starting January 2018 to February 2025. The rent payable is as follow:

- January 1, 2018, to December 31, 2018: rent payable of C$17,098 per month;
- January 1, 2019, to December 31, 2019: rent payable of C$34,197 per month; and
- January 1, 2020, to February 27, 2025: rent payable of C$51,295 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.

Lease of compressors:

— The Company entered into a lease agreement for a compressor and the lease term is from December 1, 2017 to November 30, 2020 requiring monthly lease payments of C$19,800.

Notes to the Financial Statements

For the year ended December 31, 2018
(Expressed in Canadian dollars unless otherwise indicated)

28 COMMITMENTS (Continued)

Transportation Commitment:

The Company entered into a take or pay firm service transportation agreement with committed transportation volumes as below:

Description	Volume (MMcf/d)	Effective date	Expiring date	Duration
Persta Existing FT-R with NGTL	8.00	2013-11-01	2021-10-31	8 years
Persta New FT-R with NGTL	102.00	2018-12-01	2026-12-31	8 years

The firm service transportation agreements cover the period from November 1, 2013 to December 31, 2026 (the firm service fee varies and is subject to review by the counter-party on an annual basis). The amounts presented in the Commitments table above for the transportation service commitment fee is based on fixed transportation capacity as per these agreements and management's best estimate of future transportation charges.

Under the terms of the New FT-R agreement for 102 MMcf/d, Persta's obligation commence December 2018 when NGTL completed and commissioned Persta's metering facility.

The Company also entered into the following fixed price physical commodity contracts to forward sell natural gas during the year ended December 31, 2018:

Commodity	Term	Quantity	Price
Natural gas	November 1, 2018 to March 31, 2019	1,000 GJ/day	C$2.14 per GJ
Natural gas	January 1, 2019 to December 31, 2019	6,900 GJ/day	C$2.08 per GJ
Natural gas	January 1, 2019 to March 31, 2019	1,000 GJ/day	C$2.23 per GJ

29 OTHER INCOME

On December 20, 2018, the Company monetized two in-the-money fixed price physical commodity contracts to forward sell natural gas in 2020 for C$752,000. The proceeds from the monetization were applied in full towards the New Facility.

Notes to the Financial Statements

For the year ended December 31, 2018
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30 SUBSEQUENT EVENTS

Subordinated debt agreement amendment

In March 2019, the Company and SubLender agreed to amend the SubDebt agreement. The amendment eliminated the TTM to EBITDA covenant for 2019, and implements a deferral of monthly interest payable for the SubDebt starting January 1, 2019 until the earlier of the repayment of the New Facility or January 1, 2020. The Company incurred a fee totalling C$1.0 million in relation to the amendment. The fee will be capitalized, increasing the SubDebt principal by C$1.0 million, and increasing the total SubDebt available, subject to SubLender approval, to C$26 million.

Performance services guarantee amendments

In March 2019, pursuant to its transportation commitments, the Company reduced its C$3.2 million L/C to C$1.39 million, guaranteed by the EDC on the same terms as the original L/C.

Private Placement

On March 25, 2019, the Company announced it entered into a subscription agreement with a subscriber to conditionally issue 23.6 million common shares at a price of HK$1.50 per share for gross proceeds of HK$35.4 million (approximately C$6 million). The Company intends to apply the net proceeds from the subscription for the expansion of its existing business, the development of new business, and general working capital. The subscription is scheduled to close on or before May 14, 2019.

Corporate Profile

BOARD OF DIRECTORS

Executive Director

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

Non-executive Director

Mr. Yuan Jing

Independent Non-executive Directors

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

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

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

AUDIT AND RISK COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITOR

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

REGISTERED OFFICE

15th Floor, Bankers Court
850-2nd Street SW
Calgary, Alberta T2P 0R8
Canada

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CANADA

Suite 3600, 888-3rd Street SW
Calgary, Alberta T2P 5C5
Canada

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

COMPETENT PERSONS

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

Corporate Profile

COMPLIANCE ADVISER

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

LEGAL ADVISERS

As to Hong Kong law

Wong, Wan & Partners in Association with Seyfarth Shaw
Suite 3701, 37/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

As to Canadian law

Dentons Canada LLP
15th Floor, Bankers Court
850-2nd Street SW
Calgary, Alberta T2P 0R8
Canada

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

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

STOCK CODE AND BOARD LOT

Stock Code: 3395
Board Lot: 1,000

WEBSITE

www.persta.ca

PLACE OF SHARE LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited: 3395

Definitions

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

"164 Co"	1648557 Alberta Ltd., a company incorporated in Alberta with limited liability and one of our Controlling Shareholders, the issued voting shares of which are held as to 99.01% by Mr. Bo and as to 0.99% by The Bo Family Trust
"ABCA"	the Business Corporations Act (Alberta), as amended, supplemented or as otherwise modified from time to time
"Alberta"	the Province of Alberta, Canada
"Alberta Energy Regulator" or "AER"	a corporation established under the Responsible Energy Development Act (Alberta), with a mandate to provide for the safe, efficient, orderly and environmentally responsible development of Alberta's energy resources
"Annual and Special Meeting"	the annual and special meeting of our Company held on June 9, 2017
"Articles"	the articles of incorporation of the Company, as amended, supplemented, restated or as otherwise modified from time to time
"ASC"	the Alberta Securities Commission
"Aspen"	Aspen Investment Holdings Ltd., a company incorporated in Alberta with limited liability and one of our Controlling Shareholders, the issued voting shares of which are held as to 39.69% by 164 Co, 41.09% by JLHY and 19.22% by Liyuan
"Board"	the board of Directors
"Canada"	Canada, its territories, its possessions and all areas subject to its jurisdiction
"Canadian dollars" or "CAD" or "C$" or "CDN$"	Canadian dollars, the lawful currency of Canada
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Class A Shares"	the Class "A" Common Voting Shares in the capital of our Company (as so designated pursuant to our Articles prior to April 29, 2016), which are re-designated as Common Shares on April 29, 2016
"Class B Shares"	the Class "B" Common Non-Voting Shares in the capital of our Company (as so designated pursuant to our Articles prior to April 29, 2016), which are converted for Common Shares on a 1:1 basis on April 29, 2016

Definitions

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

Definitions

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

Definitions

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

Glossary of Technical Terms

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

Glossary of Technical Terms

"drilling location"	a location identified by the Competent Person in a project associated with a potential accumulation that is sufficiently well defined as a viable drilling target to move a project toward commercial production
"E&E"	exploration and evaluation
"E&P"	exploration and production
"economic limit"	the limit at which the net operating cash flows from a project, which may be an individual well, lease, or entire field, are negative
"EUR" or "estimated ultimate recovery"	an approximation of the quantity of oil or gas that is potentially recoverable or has already been recovered from a reserve or well
"exit production"	the rate of production of oil and/or gas as at the end of the relevant period
"exploration"	the initial phase in petroleum operations that includes generation of a prospect or play or both, and drilling of exploration wells
"geological and geophysical study" or "G&G Study"	a study of available geology and seismic, magnetic, gravity, and log data to learn or evaluate subsurface geology characteristic and hydrocarbon potential
"gross Reserves"	the working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests
"high estimate"	at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate
"horizontal drilling"	a drilling technique used in certain formations where a well is drilled vertically to a certain depth, after which the drill path builds to 90 degrees until it is in the target formation and continues horizontally for a certain distance
"IP" or "initial production"	the average amount of oil and/or gas produced in the first 24 hours of a well

Glossary of Technical Terms

"Junior Assets"	the oil and gas assets of the Company which are yet to be developed as listed in the section headed "Business — Our Key Assets — Junior Assets" in this annual report
"light crude oil"	crude oil normally measured at 30 API gravity or lighter
"low estimate"	at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate
"LNG"	liquefied natural gas
"LPG"	liquefied petroleum gas
"NGLs"	natural gas liquids
"payout"	the point at which all costs of leasing, exploring, drilling and operating have been recovered from production
"PNG rights"	the right to produce petroleum and natural gas from the subsurface formation
"Possible Reserves"	those quantities of natural gas and crude oil which by analysis of geosciences and engineering data are less likely to be recoverable than probable reserves
"Probable Reserves"	those quantities of natural gas and crude oil which by analysis of geosciences and engineering data are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves
"producing well"	a well currently in production, or if shut in, previously in production and with reasonable certainty of resumption of production
"production"	the phase in petroleum operations that occurs after exploration and development phases and during which hydrocarbons are drained from an oil or gas reservoir

Glossary of Technical Terms

"Prospective Resources"	those quantities of natural gas and crude oil estimated, as at a given date, to be potentially recoverable from undiscovered accumulations which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoir and under defined economic conditions, operating methods and government regulations
"Proved Reserves"	those quantities of natural gas and crude oil, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations
"PRMS"	the Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007, as amended from time to time
"PV10%"	the present value of estimated future net revenues before income tax to be generated from the production of Proved Reserves and discounted using an annual discount rate of 10%
"Reserves"	those quantities of natural gas and crude oil anticipated to be commercially recoverable by the application of development projects to known accumulations from a given date forward under defined conditions. Reserves are classified according to the degree of certainty associated with the estimates
"reservoir"	means a porous and permeable underground rock formation containing a natural accumulation of natural gas and crude oil that is confined by impermeable rock or water barriers, is separate from other reservoirs and is characterized by a single pressure system
"Resources"	Contingent Resources and/or Prospective Resources
"section"	an area of land measuring 1 mile long by 1 mile wide or 640 acres

Glossary of Technical Terms

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

PERSTA
Resources Inc.