Persta Resources Inc.

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(incorporated under the laws of Alberta with limited liability)
Stock code: 3395

ANNUAL REPORT 2019

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)

C$'000 except per share and boe	Three months ended December 31,			Year ended December 31,		
	2019	2018	Change	**2019**	2018	Change
Production revenue	**4,897**	3,286	49%	**13,627**	15,364	(11%)
Net trading revenue	**12**	174	(93%)	**630**	661	(5%)
Operating netback[1]	**2,280**	1,614	41%	**4,217**	9,508	(56%)
Loss per share (basic and diluted)	**0.12**	0.02	500%	**0.17**	0.03	467%
Daily average sales volumes (boe/d)	**2,226**	2,153	3%	**2,133**	2,398	(11%)

(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" for further information.

ASSETS AND LIABILITIES

Results	As at December 31,				
C$ 000	**2019**	2018	2017	2016	2015
Total assets	**59,064**	103,582	111,091	91,431	100,546
Total liabilities	**(35,395)**	(35,521)	(36,398)	(40,220)	(48,709)
Total net assets	**23,668**	68,061	74,693	51,211	51,837
Share capital	**210,367**	204,367	204,367	169,247	167,588
Warrants	**647**	647	—	—	—
Contributed surplus	**74**	—	—	—	—
Accumulated deficit	**(187,419)**	(136,953)	(129,674)	(118,036)	(115,751)
Total equity	**23,668**	68,061	74,693	51,211	51,837

Five-Year Financial Summary

Selected Annual Information

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Average Daily Production					
Natural gas (mcf/d)	**10,465**	12,521	15,879	20,147	10,380
Crude oil (bbls/d)	**80**	75	70	61	54
NGLs and condensate (bbls/d)	**83**	91	140	161	85
Total production (boe/d)	**1,907**	2,208	2,856	3,579	1,868
Average Daily Trading					
Natural gas (boe/d)	**226**	190	194	—	—
Total Sales Volume (boe/d)	**2,133**	2,398	3,050	3,579	1,868
Financial					
C$'000s except share amounts					
Production revenue	**13,627**	15,364	21,443	23,706	16,080
Royalties	**(2,447)**	(1,164)	(2,793)	(1,780)	(1,072)
Net trading revenue	**630**	661	1,241	—	—
Operating costs	**(7,593)**	(5,353)	(5,746)	(6,327)	(3,636)
Operating netback[(1)]	**4,217**	9,509	13,645	15,599	11,372
Net loss	**(50,466)**	(7,279)	(11,637)	(2,286)	(2,485)
Net working capital[(2)]	**(26,646)**	(1,646)	(22,252)	5,122	6,923
Total assets	**59,064**	103,582	111,091	91,431	100,547
Capital expenditures[(3)]	**1,315**	5,415	28,719	1,412	5,374
Loss per share (basic and diluted)	**0.17**	0.03	0.04	0.01	0.01

(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" for further information.

(2) Net working capital consists of current assets less current liabilities. As at December 31, 2019, net working capital includes C$22.1 million of long term debt which has been reclassified as current, as the Company was not in compliance with certain covenants of its subordinated debt facility.

(3) Capital expenditures consist of total expenditures for property, plant and equipment plus exploration and evaluation assets, excluding changes in non-cash working capital.

Reserves Summary

THE RESERVES ESTIMATED BY GLJ

As at December 31, 2019	Total Mboe	Reserve Composition (%)	
		Natural Gas	Other[1]
Gross Proved Reserves	**6,379**	**95.0%**	**5%**
Gross Proved plus Probable Reserves	**9,152**	**95.1%**	**4.9%**

As at December 31, 2018	Total Mboe	Reserve Composition (%)	
		Natural Gas	Other[1]
Gross Proved Reserves	10,654	95.1%	4.9%
Gross Proved plus Probable Reserves	15,050	95.2%	4.8%

(1) Other reserves are comprised of crude oil, condensate and natural gas liquids.

The reserves data provided in this annual report is based upon the report of GLJ effective December 31, 2019, with an execution date of March 18, 2020 (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, 2019 and 2018 assumes forecast prices and costs as at the execution date of the GLJ Report.

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, 2019.

2019 was a difficult year for many oil and natural gas companies in western Canada, including Persta. Additional challenges have arisen in 2020 from the outbreak of COVID-19, and collapse of oil prices in response to severe decrease in global demand from COVID-19 and a price war between Russia and Saudi Arabia.

Notwithstanding these headwinds, during 2019 and thus far in 2020, Persta achieved milestones in several key areas, which positions the Company well for future growth:

— Construction of the 34 kilometer Voyager pipeline and gas gathering system. This project is near completion, and the Company forecasts first gas from the Voyager area during the second quarter of 2020;

— Completion of pre-production operations at Voyager to allow the wells to be tied into the Voyager pipeline and gas gathering network;

— Targeted cost reduction which resulted in a 25% reduction in general and administrative expenses for the year ended December 31, 2019, compared to the year ended December 31, 2018, and a 47% decrease in general administrative expenses for the fourth quarter of 2019, compared to the same period in 2018;

— Restructuring of the Company's senior executive team, with Mr. Yongtan Liu joining the Company in December of 2019 as Executive Director and Chairman, and the promotion of Mr. Pingzai Wang to Chief Executive Officer in March 2020, following the departure of Mr. Le Bo; and

— The restructuring of the Company's long term debt which will provide financial flexibility allowing for early repayment with no penalties, and suspension of financial covenants until March 31, 2021.

FUTURE PROSPECTS

As the Company's production is 90% comprised of natural gas, the impact of the collapse in oil prices in 2020 has been limited. The Company has shut-in production of approximately 60 barrels of oil per day from its Dawson Creek area in response to the low price. The Company forecasts first gas from Voyager in the second quarter of 2020, which will increase revenues and cashflow from the Greater Basing/Voyager area, and offset the shut-in production from the Peace River area. Gas prices in the western Canadian market have strengthened in response to the collapse in oil prices, as drilling activities for liquids rich gas has been dramatically curtailed. These liquid rich wells have resulted in an oversupply of dry gas in the western Canadian market for the past several years, as operators margins were generated from the liquids associated with the natural gas, as opposed to the natural gas itself. As these liquids are priced in the context of oil, the collapse in oil prices has directly impacted the price of associated liquids. With the reduction in drilling activities, there is less natural gas forecast to come to the market this year, resulting in the strengthening of future gas prices in western Canada.

The Company's cost reduction efforts have continued in 2020. Total headcount of staff and consultants has been reduced by more than 40% since December 2019, and the Company has realized reductions in expenses from multiple vendors who have lowered their prices to stimulate demand.

As Voyager production commences, the next stage of growth for Persta will begin. We look forward to a prosperous and productive year ahead.

On behalf of the Board of Directors, I would like to 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.

Yongtan Liu
Chairman
Calgary, Canada, May 14, 2020

Profiles of Directors and Senior Management

Below are the brief profiles of the Directors and senior management of the Company for the year ended December 31, 2019.

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 Directors			
Mr. Yongtan Liu	65	Chairman of the Board and executive Director	December 18, 2019
Mr. Le Bo (伯樂)	40	Prior to December 18, 2019, President, Chairman of the Board, Chief Executive Officer and executive Director. Resigned as Chairman of the Board and executive Director on December 18, 2019, and as Chief Executive Officer on March 4, 2020	March 2005
Non-executive Director			
Mr. Yuan Jing (景元)	60	Non-executive Director	March 2005
Independent non-executive Directors			
Mr. Richard Dale Orman	71	Independent non-executive Director	February 2016
Mr. Bryan Daniel Pinney	67	Independent non-executive Director	February 2016
Mr. Peter David Robertson	68	Independent non-executive Director	February 2016

Executive Directors

Mr. Yongtan Liu, aged 65, is the executive Director, the Chairman of the Board, the Chairman of the nomination Committee and a member of the remuneration Committee of the Board. Mr. Liu was appointed to the Board on December 18, 2019.

Mr. Liu is currently the chairman of Changchun City Jixing Gas Service for Auto Co., Ltd ("**CCJGSA**") in the People's Republic of China (the "**PRC**"). Mr. Liu has more than 20 years of experience in the energy industry, and extensive experience in corporate development, corporate management, financial investment and project development. Mr. Liu established CCJGSA in 2002, aiming to build a new energy enterprise and maximize customers' values through the development of green energy. Under the leadership of Mr. Liu, through a well-executed growth strategy and operation management, CCJGSA achieved rapid growth within the energy industry, particularly in the field of natural gas transportation pipeline, natural gas processing plants, natural gas compression and gas stations. Presently, CCJGSA is a sizeable natural gas service enterprise within the northeastern region of the PRC.

Mr. Le Bo (伯樂), aged 40, was the President and Chief Executive Officer of Persta from March 11, 2005 until his resignation on March 4, 2020. Mr. Bo was also the Chairman and a director of Persta from March 11, 2005 until his resignation on December 18, 2019. Until his resignation, Mr. Bo was the Chairman of the nomination committee and a member of the remuneration committee of the Board.

Mr. Bo has over 13 years of experience in the natural gas and oil industry. Mr. Bo previously worked at Fairmont Hotels & Resorts and Suncor Energy Inc. as an independent contractor. Mr. Bo is the cofounder of the Company and was 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.

Non-executive Director

Mr. Yuan Jing (景元), aged 61, 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 23 years of experience in business. Mr. Jing is currently the chairman of the board of directors of JLHY since his appointment in 1996. Further, Mr. Jing has been appointed as the President and CEO of Jie Fang Road School (解放大路學校) since 1994. Since completing secondary education, Mr. Jing spent 12 years working as a bank clerk in the local branches of Industrial and Commercial Bank of China in Jilin Province, China, during 1981 to 1985 and 1985 to 1993.

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

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

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

Independent Non-executive Directors

Mr. Richard Dale Orman, aged 71, 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 a Corporate Director and Principal of PLM Consultants Ltd.

Mr. Orman has more than 40 years of experience in the oil and natural gas industry. Mr. Orman was an Executive Assistant to the Minister of Mines and Minerals of the Government of Alberta (1972–1975) and a Special Assistant to Minister of Energy and Natural Resources of the Government of Alberta in 1976. Mr. Orman was first elected as a Member of the Alberta Legislative Assembly in 1986 where he served as Minister of Employment (1986–89), Minister of Labour (1988–89) and Minister of Energy (1989–92), 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.

After retiring from elected office in 1993, Mr. Orman was appointed Vice-Chairman and director of NovAtel Inc. (1994–2007). NovAtel, a precision instrument company, was listed on the NASDAQ. Mr. Orman served as Chairman and CEO of Kappa Energy Inc. (1994–1998), an international energy exploration company. He also served as director of Vanguard Oil Corp. (1998–2001). Mr. Orman was Executive Vice Chairman of Exceed Energy Inc. (2003–05) which was listed on the Toronto Stock Exchange ("**TSX**"). From 2007 to 2011, he was Lead Director of Daylight Energy Ltd, listed on the TSX. Mr. Orman also served as Chief Executive Officer and director of NOR Energy AS (2005–11), a Norwegian oil and gas exploration company with assets located in the North Sea, Tanzania, Australia and the Czech Republic.

Mr. Orman currently serves as Chairman of CannaPharmaRx (2018–present), and as Chairman of WesCan Energy Corporation (2012–present), a company listed on the TSX Venture Exchange (CVE: WCE) and principally engaged in oil and gas production in Canada.

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

Mr. Bryan Daniel Pinney, aged 67, 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 and a director of Sundial Growers Inc., a company listed on the NASDAQ (SNDL) since December 18, 2019.

Mr. Pinney has more than 31 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.

Mr. Peter David Robertson, aged 68, 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)	53	2006	Senior Vice President, Exploration, appointed Chief Executive Officer on March 4, 2020
Mr. Binyou Dai (代斌友)	50	2009	Vice President, Engineering, appointed Chief Operating Officer on May 1, 2020
Mr. Jesse Meidl	44	2018	Chief Financial Officer
Mr. Lei Song (宋磊)	36	2014	Vice President, Business Development

Mr. Pingzai Wang (王平在), aged 53, was the Senior Vice President, Exploration in charge of exploration activities of the Company until his resignation in December 2019. On March 4, 2020, Mr. Wang was appointed as the Chief Executive Officer 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.

Mr. Binyou Dai (代斌友), aged 50, joined the Company in June 2009 and was appointed as our Company's Vice President, Engineering on March 31, 2014, and was appointed Chief Operating Officer on May 1, 2020. 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 44, 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.

Mr. Lei Song (宋磊), aged 36, 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

This Management's Discussion and Analysis ("**MD&A**") of Persta Resources Inc. ("**Persta**" or the "**Company**") should be read in conjunction with the Company's audited financial statements and notes thereto for the years ended December 31, 2019 and 2018. All amounts in this MD&A are stated in thousands of Canadian dollars ("**C$ 000**") 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" and "adjusted EBITDA".

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.

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. Approximately 90% of the Company's revenue is generated from the Basing area. Voyager is geologically analogous and located approximately 30 kilometers ("**km**") from Basing.

On May 9, 2019, the Company announced it entered into a gas handling agreement (the "**Gas Handling Agreement**") with Jixing Energy (Canada) Ltd. ("**Jixing**"), whereby the Company will transport its natural gas and associated products through Jixing's Voyager gas gathering system and pipeline. The project consists of 5 natural gas pipelines and auxiliary facilities at Voyager and Basing. The total length of the gas pipeline is 35.4 km with a designed capacity of 1.3 billion cubic meters per year at 9,930 KPa, connecting to the TransCanada Gas Transmission System.

The Gas Handling Agreement will allow for tie-in and production from the Company's Voyager area gas wells. The Company currently forecasts first production from the Voyager area under the Gas Handling Agreement in the second quarter of 2020. The Gas Handling Agreement will also allow for future expansion of the Company's natural gas exploration and production from the Voyager and surrounding area.

To prepare the Voyager wells for first production when the pipeline project is commissioned, the Company has successfully completed the following workover operations:

Voyager well 102/11-29-045-19W5/02: pulled dart and plug from production tubing

Voyager well 102/01-13-045-19W5/00: master valve replacement and hydrate removal

Voyager well 100/08-13-045-19W5/02: installation of master valve and flow tee

Voyager well 102/06-13-045-19W5/02: installation of wellhead pressure gauges

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	Year Ended December 31,				
	2019	2018	2017	2016	2015
Average Daily Production					
Natural gas (mcf/d)	**10,465**	12,521	15,879	20,147	10,380
Crude oil (bbls/d)	**80**	75	70	61	54
NGLs and condensate (bbls/d)	**83**	91	140	161	85
Total production (boe/d)	**1,907**	2,208	2,856	3,579	1,868
Average Daily Trading					
Natural gas (boe/d)	**226**	190	194	—	—
Total Sales Volume (boe/d)	**2,133**	2,398	3,050	3,579	1,868
Financial					
C$'000s except share amounts					
Production revenue	**13,627**	15,364	21,443	23,706	16,080
Royalties	**(2,447)**	(1,164)	(2,793)	(1,780)	(1,072)
Net trading revenue	**630**	661	1,241	—	—
Operating costs	**(7,593)**	(5,353)	(5,746)	(6,327)	(3,636)
Operating netback(1)	**4,217**	9,509	13,645	15,599	11,372
Net loss	**(50,466)**	(7,279)	(11,637)	(2,286)	(2,485)
Net working capital(2)	**(26,646)**	(1,646)	(22,252)	5,122	6,923
Total assets	**59,064**	103,582	111,091	91,431	100,547
Capital expenditures(3)	**1,315**	5,415	28,719	1,412	5,374
Loss per share (basic and diluted)	**0.17**	0.03	0.04	0.01	0.01

(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" for further information.

(2) Net working capital consists of current assets less current liabilities. As at December 31, 2019, net working capital includes C$22.1 million of long term debt which has been reclassified as current, as the Company was not in compliance with certain covenants of its subordinated debt facility.

(3) Capital expenditures consist of total expenditures for property, plant and equipment plus exploration and evaluation assets, excluding changes in non-cash working capital.

Summary

The Company's total production has declined since 2016. In 2017 the market price for natural gas in western Canada materially declined and the market has remained below historical averages subsequently. In response, the Company has strategically shut-in wells during periods of low natural gas prices and purchased gas on the open market to meet its forward sales obligations.

The Company's revenues have declined since 2016, attributable to both lower production and commodity prices experienced in recent years. Operating costs have increased materially in 2019 as the Company's gas transport obligations commenced in the fourth quarter of 2018. These obligations are fixed and provide Persta with transport capacity of up to 110 MMcf/d. As the Company's production increases in the future, these costs will reduce on a per unit basis. The Company is actively seeking to transfer its unused capacity to other producers in the area, which will reduce its monthly burden in the short-term, while taking back the capacity in the future when the Company's production increases.

The Company's net loss in 2019 is attributable to lower net revenues, higher operating and finance costs and C$41 million of impairment losses and write-offs recognised during the year. These impairment losses are non-cash charges resulting from assessments which indicated the carrying costs of the Company's assets exceed their estimated future recoverable amounts, which have been negatively impacted by the decline in commodity prices over the past three years.

As at December 31, 2019, net working capital includes C$22.1 million of long term debt which has been reclassified as current, as the Company was not in compliance with certain covenants of its subordinated debt facility.

Selected Quarterly Information

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Average Daily Production								
Natural gas (mcf/d)	**11,912**	6,238	6,717	17,023	10,786	9,236	11,090	17,987
Crude oil (bbls/d)	**80**	74	76	90	64	75	69	94
NGLs and condensate (bbls/d)	**113**	45	59	114	95	66	72	133
Total production (boe/d)	**2,178**	1,159	1,255	3,041	1,957	1,680	1,989	3,225
Average Daily Trading								
Natural gas (boe/d)	**48**	598	367	39	315	222	289	75
Financial								
C$'000s except share amounts								
Production revenue	**4,897**	1,582	2,082	5,065	3,286	3,164	3,480	5,434
Royalties	**(1,119)**	(456)	(214)	(658)	(266)	(319)	261	(840)
Net trading revenue	**12**	399	249	(30)	174	191	281	15
Operating costs	**(1,510)**	(1,919)	(1,811)	(2,353)	(1,581)	(1,096)	(1,200)	(1,476)
Operating netback[(1)]	**2,280**	(395)	306	2,025	1,614	1,940	2,823	3,132
Net loss	**(34,671)**	(3,041)	(10,744)	(2,010)	(5,335)	(1,071)	(342)	(545)
Net working capital[(2)]	**(26,646)**	(5,880)	(3,441)	(6,446)	(1,646)	3,638	4,033	(2,639)
Total assets	**59,064**	92,233	94,131	103,665	103,582	111,604	113,438	110,406
Capital expenditures[(3)]	**575**	192	143	405	1,033	693	1,329	2,360
Loss per share (basic & diluted)	**0.12**	0.01	0.03	0.01	0.02	0.01	0.00	0.00

(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" for further information.

(2) Net working capital consists of current assets less current liabilities. As at December 31, 2019, net working capital includes C$22.1 million of long term debt which has been reclassified as current, as the Company was not in compliance with certain covenants of its subordinated debt facility.

(3) Capital expenditures consist of total expenditures for property, plant and equipment plus exploration and evaluation assets, excluding changes in non-cash working capital.

Summary

The Company's total production is impacted by seasonal fluctuations experienced in western Canada. During the Canadian winter (October — March), demand for gas is highest as it is used for heating and power generation. The market price for natural gas is cyclical and follows demand, with prices generally strongest in the winter, and weakest in summer. During summer the Company has strategically shut-in wells during periods of low natural gas prices and purchased gas on the open market to meet its forward sales obligations. The Company's revenues have been strongest during the first quarter of both 2018 and 2019, and weakest in the second and third quarters, reflecting the demand cycle.

Operating costs have increased materially in 2019 as the Company's gas transport obligations commenced in the fourth quarter of 2018. These obligations are fixed and provide Persta with transport capacity of up to 110 MMcf/d. As the Company's production increases in the future, these costs will reduce on a per unit basis. The Company is actively seeking to transfer its unused capacity to other producers in the area, which will reduce its monthly burden in the short-term, while taking back the capacity in the future when the Company's production increases.

The Company's higher net loss experienced in the second and fourth quarters of 2019 is attributable to impairment losses and write-offs recognised during these periods. These impairment losses are non-cash charges resulting from assessments which indicated the carrying costs of the Company's assets exceed their estimated future recoverable amounts, which have been negatively impacted by the decline in commodity prices over the past three years.

As at December 31, 2019, net working capital includes C$22.1 million of long term debt which has been reclassified as current, as the Company was not in compliance with certain covenants of its subordinated debt facility.

RESULTS OF OPERATIONS

Daily Production and Sales Volumes

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 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.

	Three months ended December 31,			Year ended December 31,		
	2019	2018	Change	**2019**	2018	Change
Production						
Natural gas (mcf/d)	**11,912**	10,786	10%	**10,465**	12,251	(15%)
Oil (bbl/d)	**80**	64	25%	**80**	75	6%
NGLs (bbl/d)	**35**	26	35%	**29**	28	3%
Condensate (bbl/d)	**78**	69	13%	**54**	63	(15%)
Total production (boe/d)	**2,178**	1,957	11%	**1,907**	2,208	(14%)
Trading						
Natural gas (mcf/d)	**286**	1,177	(76%)	**1,354**	1,142	19%
Total trading (boe/d)	**48**	196	(76%)	**226**	190	19%
Total sales volume (boe/d)	**2,226**	2,153	3%	**2,133**	2,398	(11%)

Total sales volume for the three months ended December 31, 2019 averaged 2,226 boe/d, in line with the comparative period in 2018. An 11% increase in total production was offset by a 76% decrease in trading over the prior year. During periods of low natural gas prices, the Company strategically shut-in in its production and purchased gas on the open market to meet its forward sales obligations. The decrease in trading volumes over 2018 reflects the stronger gas price experienced in the fourth quarter of 2019, which resulted in fewer days where production was shut-in.

Total sales volume for the year ended December 31, 2019 averaged 2,133 boe/d, 11% lower than 2018. Production decreased 14% while trading volumes increased 19% over 2018, as the Company shut-in production for extended periods during the second and third quarters of 2019 in response to weak natural gas prices.

Natural gas liquids ("**NGLs**") and condensate production are by-products of natural gas. The amount of NGL and condensate production varies for each well, and their production rates as a percentage of natural gas production can change over time. Production for the three months ended December 31, 2019 increased over the comparative period in 2018, consistent with the increase in natural gas production year over year. For the year ended December 31, 2019, the 15% lower condensate production was consistent with the 15% reduction in natural gas production. NGLs comprise a small amount of the Company's associated liquids, and were not impacted by the reduction in natural gas production in 2019 with consistent production year over year.

Oil production for both the three months and year ended December 31, 2019 were higher than the comparative periods in 2018. The increase in production is attributable to successful workover and clean out operations completed in the first quarter of 2019.

With the completion of the Voyager pipeline, production is expected to increase as the Company will tie-in four wells drilled in 2017 and 2018. The pipeline is forecast to be completed in the second quarter of 2020. As the natural gas market remains below historical averages, to exploit weakness in the market, the Company expects it will continue to shut-in production and trade gas to fulfil its forward sale contracts when it is economically advantageous.

Revenue

C$'000s	Three months ended December 31, 2019	2018	Change	Year ended December 31, 2019	2018	Change
Production						
Natural gas	**3,888**	2,542	53%	**10,119**	11,441	(12%)
Crude oil	**511**	260	97%	**1,913**	1,815	5%
NGLs	**40**	86	(53%)	**194**	363	(47%)
Condensate	**458**	399	15%	**1,402**	1,746	(20%)
Total production revenue	**4,897**	3,286	49%	**13,627**	15,364	(11%)
Trading						
Natural gas revenue	**64**	256	(75%)	**1,039**	1,071	(3%)
Natural gas cost	**(54)**	(82)	(35%)	**(409)**	(409)	(0%)
Net trading revenue	**12**	174	(93%)	**630**	661	(5%)
Total revenue	**4,909**	3,461	42%	**14,257**	16,026	(11%)

Production revenue for the three months ended December 31, 2019 increased 49% over the same quarter in 2018. The increase is attributable to both higher realized pricing and production volumes experienced in the fourth quarter of 2019. Production revenue for the year ended December 31, 2019 decreased 11% compared to 2018, as total production volume and realized natural gas prices were lower in 2019.

Crude oil revenues for both the three months and year ended December 31, 2019 were higher than the same periods in 2018, reflecting higher production volumes and sales prices this year. Crude oil prices have declined materially in 2020, as both Saudi Arabia and Russia have increased production which has depressed global oil prices. Until a production curtailment is agreed between these countries, oil prices will remain depressed and lower than those experienced in 2019.

Net trading revenue for the three months ended December 31, 2019 decreased 93% over the comparative period in 2018, consistent with the reduction in trading volumes as the stronger gas price experienced in the fourth quarter of 2019 resulted in fewer days where production was shut-in. For the year ended December 31, 2019, net trading revenue was 5% lower than 2018, despite higher volumes of gas traded in 2019. As the Company strategically trades gas in periods of significant weakness in the market, trading revenues earned are a function of the gains realized on the quantity and price of gas traded over a given time to meet its forward sales obligations, and therefore not directly comparable to prior periods.

Commodity Prices

	Three months ended December 31,			Year ended December 31,		
	2019	2018	Change	**2019**	2018	Change
Natural gas *(C$/mcf)*						
Average market price (AECO)	**2.42**	2.31	5%	**1.66**	1.74	(5%)
Average forward sales price	**2.18**	2.52	(13%)	**2.24**	2.72	(18%)
Average trading price	**2.67**	1.79	49%	**1.95**	1.48	32%
Average sales price	**2.51**	2.54	(1%)	**2.05**	2.56	(20%)
Crude oil *(C$/bbl)*						
Average market price (Edmonton Par)	**68.06**	51.41	32%	**69.16**	70.92	(2%)
Average sales price	**69.51**	44.20	57%	**65.36**	65.97	(1%)
NGLs *(C$/bbl)*						
Average market price (Propane/Butane)	**31.09**	18.08	72%	**20.59**	29.94	(31%)
Average sales price	**34.64**	35.85	(3%)	**18.41**	35.54	(48%)
Condensate *(C$/bbl)*						
Average market price (Pentane Plus)	**69.44**	67.71	3%	**69.98**	80.23	(13%)
Average sales price	**71.29**	62.95	13%	**71.21**	75.58	(6%)

Realized gas price sales for the three months ended December 31, 2019 averaged C$2.51/mcf, consistent with the same period in 2018. Realized gas sales price for the year ended December 31, 2019 averaged C$2.05/mcf, 20% lower than the prior year. The reduction is attributable to lower AECO market pricing in 2019, and the completion in March 2019 of forward sales contracts for 2,000 GJ/d at an average price of C$2.36/mcf.

As the benchmark AECO price was below historical averages, during the second and third quarter of 2019, the Company's gas sales were largely comprised of delivering its forward sales volumes of 6,900GJ/d at a price of C$2.08/GJ (C$2.25/mcf). In periods of extreme weakness in the AECO market, the Company shut-in its production and traded gas on the spot market to meet its forward sales obligations. The average trading price is a function of the gains realized on the quantity and price of gas traded over a given time to meet its forward sales obligations, and therefore not directly comparable to prior periods.

NGL production is tied to natural gas production. The Company's natural gas wells produce varying amounts of NGLs (propane and butane), which are sold at different prices in the market. As some wells are shut-in, the NGL production matrix is impacted, resulting in a changing realized price dependent on the composition of NGLs. Generally the more butane produced, the higher the realized price for NGLs. For the year ended December 31, 2019, realized NGL prices were 48% lower than the market price, as the Company's NGLs were largely comprised of propane until the fourth quarter, when the Company resumed production from two wells in the Basing area which are butane weighted. This is reflected in the realized NGL price for the fourth quarter of 2019 which were consistent with the average market price.

The Company's realized condensate and crude oil prices for both the three months and year ended December 31, 2019 were consistent with the average market prices over the same periods. Variations from the benchmark are a function of product sales occurring periodically over the quarter and year, compared to the average daily reference price.

Royalties

	Three months ended December 31,			Year ended December 31,		
C$'000s	**2019**	2018	Change	**2019**	2018	Change
Natural gas, NGLs and condensate	**939**	116	710%	**1,812**	516	251%
Crude oil	**180**	150	20%	**634**	648	(2%)
Total royalties	**1,119**	266	320%	**2,447**	1,164	110%
Effective average royalty rate	**23%**	8%	188%	**18%**	8%	125%

In Alberta, royalties are set by a sliding scale formula containing separate elements that account for market price and well production. Royalty rates will fluctuate to reflect changes in production rates, market prices and cost allowances.

For the year ended December 31, 2019, the Company's base royalty rate for natural gas ranged from 5% to 21%, the base royalty rate for NGLs (propane and butane) was 30%, the base royalty rate for condensate and crude oil was 40%. Effective royalty rates can differ from the base rates if the production qualifies for any cost allowances which offset the base amount payable. For the three months and year ended December 31, 2019, the effective average royalty rate (total royalties divided by total revenues) was 23% and 18% respectively, compared to 8% for both comparative periods in 2018.

The increase in gas royalties in 2019 is attributable to changes in allowable cost reductions for the Company's natural gas sales, which was applied retroactively over 2019. As a result of this reduction in allowances, the Company forecasts the effective royalty rate will average 20%, until production from the Voyager area commences. Voyager wells will benefit from the Modernizing Alberta's Royalty Framework, under which a company will pay a flat royalty of 5% on a well's early production until the well's total revenue, from all hydrocarbon products, equals the drilling and completion cost allowance.

Operating Costs

	Three months ended December 31,			Year ended December 31,		
C$'000s	**2019**	2018	Change	**2019**	2018	Change
Natural gas, NGLs and condensate	**1,411**	1,410	0%	**7,227**	4,741	52%
Crude oil	**99**	171	(42%)	**366**	613	(40%)
Total operating costs	**1,510**	1,581	(5%)	**7,593**	5,354	42%
Unit Cost *(C$/boe)*						
Natural gas, NGLs and condensate	**7.31**	8.10	(10%)	**10.84**	6.09	78%
Crude oil	**13.46**	29.06	(54%)	**12.50**	22.29	(44%)
Average cost	**7.53**	8.78	(14%)	**10.91**	6.64	64%

For the year ended December 31, 2019, operating costs ("**opex**") increased 42% over 2018. The increase in the current year is attributable to the fixed Firm Transport Volume ("**FT-Volume**") obligations which commenced in the fourth quarter of 2018 (refer to Note 28 in the audited financial statements for the year ended December 31, 2019 for additional information). These FT-Volume obligations are fixed and provide Persta with transport capacity of up to 110 MMcf/d. As the Company's production increases in the future, these costs will reduce on a per unit basis. The Company is actively seeking to transfer its unused FT-Volume to other producers in the area, which will reduce its monthly burden in the short-term, while taking back the capacity in the future when the Company's production increases.

For the three months ended December 31, 2019, natural gas, NGL and condensate opex was consistent with the prior year as the majority of lifting costs is fixed for these products. Total opex for the fourth quarter was 5% lower than the prior year reflecting a 42% reduction in crude oil opex.

General and Administrative Costs ("G&A")

	Three months ended December 31,			Year ended December 31,		
C$'000s	**2019**	2018	Change	**2019**	2018	Change
Staff costs	**223**	583	(62%)	**1,612**	2,201	(27%)
Accounting, legal and consulting fees	**629**	977	(36%)	**1,783**	2,310	(23%)
Office	**9**	95	(91%)	**106**	252	(58%)
Other	**165**	264	(37%)	**690**	822	(16%)
Total G&A costs	**1,026**	1,919	(47%)	**4,191**	5,585	(25%)
Capitalized staff costs	**103**	119	(14%)	**346**	538	(36%)

Total G&A costs for the three months ended December 31, 2019 were 47% lower than the comparative period in 2018 attributable to reductions in staff and office costs. For the year ended December 31, 2019, total G&A costs were 25% lower than the comparable period, reflecting lower staff, accounting, legal, consulting and office costs in 2019. 2018 advisory fees were higher than 2019. They were incurred in 2018 as part of the Company's fundraising initiatives and advisory costs for corporate and assets acquisitions the Company was evaluating at the time. Other costs include memberships, insurance, travel and accommodation. Capitalized staff costs are comprised of qualifying expenditures in respect of geological and geophysical activities, changes over the comparative periods are a function of qualifying activity levels in the respective periods.

Finance Expenses

	Three months ended December 31,			Year ended December 31,		
C$'000s	**2019**	2018	Change	**2019**	2018	Change
Interest expense and financing costs	**877**	860	2%	**3,452**	2,697	28%
Amortization of debt issuance costs	**126**	60	110%	**502**	169	197%
Loss (gain) on foreign exchange	**18**	(13)	(238%)	**18**	(13)	(238%)
Accretion expense	**261**	(7)	(3,829%)	**291**	40	628%
Total finance expenses	**1,282**	900	42%	**4,263**	2,894	47%

For the three months and year ended December 31, 2019, interest and financing costs were incurred from the Company's bank debt, subordinated debt and capitalized leases. The increase over the prior periods is primarily attributable to the C$21 million subordinated debt which carries interest at 12% per annum. This facility was not in place until May 2018. The Company also incurred C$0.26 million of interest in respect of the Master Turnkey Drilling and Completion Contract (refer to Note 12 in the audited financial statements for the year ended December 31, 2019 for additional information).

Amortization of debt issuance costs includes legal fees, commissions and commitment fees which were incurred from the closing of the subordinated debt facility in May 2018, and further increased in January 2019 pursuant to amendments in respect of the debt facility which were arranged at that time (refer to Note 13 to the audited financial statements for the year ended December 31, 2019 for additional information). These costs are capitalized against the debt and amortized over the term.

Accretion expense is comprised of costs recognized when updating the present value of the decommissioning provision, and expense recognized in respect of capitalized leases under IFRS 16, which came into effect January 1, 2019. The increase over the comparative periods is attributable to IFRS 16 expenses, the Company has adopted the standard using the modified retrospective approach which does not require restatement of prior period financial information (refer to Note 4 to the audited financial statements for the year ended December 31, 2019 for additional information).

Depletion, Depreciation and Amortization ("DD&A")

C$'000s except per unit costs	Three months ended December 31,			Year ended December 31,		
	2019	2018	Change	**2019**	2018	Change
Depletion	**1,428**	1,146	25%	**4,490**	5,333	(16%)
Depreciation	**8**	9	(12%)	**32**	36	(12%)
Amortization of right of use assets	**161**	—	100%	**643**	—	100%
Total DD&A	**1,597**	1,156	38%	**5,165**	5,369	(4%)
Per boe	**7.97**	6.42	24%	**7.42**	6.66	11%

For the three months and year ended December 31, 2019, depletion expense is comprised of depletion incurred from production of the Company's developed assets, and the depreciation expense comprised the depreciation of office fixed assets, including office furniture, office equipment, vehicles, computer hardware and computer software. The decrease of depletion expense for the year ended December 31, 2019 over 2018 is consistent with the reduction in the Company's production over the same period. The increase of depletion expense for the three months ended December 31, 2019 over 2018 is consistent with the increase in the Company's production over the same period.

Amortization of right of use assets were incurred in respect of capitalized leases under IFRS 16, which came into effect January 1, 2019. The Company has adopted the standard using the modified retrospective approach which does not require restatement of prior period financial information (refer to Note 4 to the audited financial statements for the year ended December 31, 2019 for additional information).

Impairment Losses and Write-offs

C$'000s	Three months ended December 31, 2019	2018	Change	Year ended December 31, 2019	2018	Change
PP&E impairment and write-offs	**7,396**	1,962	277%	**15,221**	1,962	676%
E&E impairment and write-offs	**25,684**	1,791	1,334%	**25,921**	1,791	1,347%
Total impairment and write-offs	**33,080**	3,753	781%	**41,142**	3,753	996%

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 Cash Generating Unit ("**CGU**"), which is the smallest identifiable grouping of assets that generates largely independent cash inflows. Write-offs are attributable to land lease expiries, when a lease term is completed the Company writes off any remaining capitalized value in respect of the asset. Refer to Note 4 in the audited financial statements for the year ended December 31, 2019 for additional disclosures in respect of the Company's significant accounting policies.

Property, plant and Equipment ("PP&E") Impairment

For the year ended December 31, 2019, the Company identified indicators of impairment in its PP&E assets in the Basing and Dawson CGU's attributable to declines in natural gas, natural gas liquids and oil prices. The Company calculated the recoverable amount of the Basing and Dawson CGU's based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate. Based on the assessment, the carrying amount of the Basing CGU was higher than its recoverable amount of C$32.8 million. As such, the Company recognized an impairment loss of C$15.2 million (2018: C$1.96 million) for this CGU during the year ended December 31, 2019. The carrying amount of the Dawson CGU was lower than its recoverable amount of C$2.6 million, and no impairment loss was recognized.

Exploration and Evaluation ("E&E") Impairment

At December 31, 2019, the Company has identified indicators of impairment in its E&E assets from its Voyager CGU attributable to declines in natural gas and natural gas liquids prices. The Company calculated the recoverable amount of the Voyager CGU based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate. Based on the assessment as at December 31, 2019, the carrying amount of the Company's Voyager CGU was higher than the recoverable amount of C$12.5 million, as such the Company has recognized an impairment loss of C$25.3 million (2018: C$nil).

Share-based Compensation

There was no share-based compensation incurred during the years ended December 31, 2019 and 2018.

Other Income

For the year ended December 31, 2019, other income is primarily comprised of over-riding royalty payments paid to the Company by arm's length entities, whereby the Company receives a portion of oil and natural gas revenues generated from wells in which it holds a royalty interest.

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 bank loan. The remaining balance of other income is primarily comprised of over-riding royalty payments.

Net Loss and Comprehensive Loss

Net loss and comprehensive loss for the three months ended December 31, 2019 totaled C$34.7 million, compared to C$3.0 million in 2018. Net loss and comprehensive loss for the year ended December 31, 2019 totaled C$50.5 million, compared to C$7.3 million in 2018. The increase in loss for both periods over the prior year is attributable to lower net revenues, higher operating and finance costs and C$41.1 million of impairment losses and write-offs recognised in 2019.

CAPITAL EXPENDITURES

	Year ended December 31, 2019 C$'000	Year ended December 31, 2018 C$'000
PP&E		
Well site	**36**	69
Facilities and pipeline	**—**	122
General and administrative costs capitalized	**—**	13
Total PP&E	**36**	204
E&E Assets		
Undeveloped lands	**—**	342
General and administrative costs capitalized	**346**	525
Unevaluated drilling and completion costs	**933**	4,344
Total E&E	**1,279**	5,211
Total PP&E and E&E	**1,315**	5,415
Change in non-cash working capital	**(2,624)**	(2,548)
Total	**(1,309)**	2,868

The Company's 2019 capital expenditures ("**capex**") were significantly lower than the previous year, restricted by free cash available for capex investment. 2019 PP&E capex was incurred for tangible production equipment at Basing and Voyager. 2019 E&E capex was comprised of C$0.35 million in G&A capitalized in accordance with the Company's accounting policies, and C$0.93 million of expenditures incurred at Voyager to prepare the Voyager wells for first production, currently forecasted to commence late in the second quarter of 2020.

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 loans and subordinated debt, other liabilities and working capital. To assess capital and operating efficiency and financial strength, the Company continually monitors its net debt. As disclosed in Note 3 of Company's audited financial statements for the year ended December 31, 2019, the Company's future viability is dependent on its ability to source additional capital on acceptable terms.

Capital structure of the company

The Company's capital structure is as follows:

	As at December 31, 2019 C$'000	As at December 31, 2018 C$'000
Long term debt[(1)]	**602**	23,064
Other liabilities	**813**	4,226
Lease liabilities	**2,664**	—
Net working capital deficit[(2)]	**26,646**	1,646
Net debt	**30,725**	28,936
Shareholders' equity[(3)]	**23,668**	68,061
Total capital	**54,393**	96,997
Gearing ratio[(4)]	**56%**	30%

Notes:

(1) This is long term debt amount excluding current portion of long term debt. (Refer to Note 13 of the Company's audited annual financial statements for the year ended December 31, 2019).

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

(3) As at December 31, 2019 and the date of this MD&A, the Company has 301,886,520 common shares issued and outstanding and 8 million warrants issued with a strike price of HK$3.16 per warrant.

(4) Gearing Ratio is defined as net debt as a percentage of total capital.

The working capital deficit in 2019 includes C$22.1 million of long term debt which has been reclassified as current as at December 31, 2019 as the Company was not in compliance with certain covenants of its subordinated debt facility.

Performance services guarantee ("PSG") facility

On April 25, 2018, the Company obtained a PSG facility from Economic Development Canada ("**EDC**") totaling C$4.4 million. On June 28, 2019 the aggregate PSG was reduced to C$2.5 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 the 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, 2019, the Company has PSG coverage for the following L/C's:

Amount	Expiry
C$1,392,000	June 14, 2021
C$408,158	March 31, 2021

For the year ended December 31, 2019, the Company incurred fees totaling C$66,028 (2018: C$70,000) in relation to the PSG facility.

Capital resources

The Company operates in a capital intensive industry. The Company's liquidity requirements arise principally from the need for financing the expansion of its exploration and development activities, acquisition of land leases and petroleum and natural gas licences. The Company's principal sources of funds have been proceeds from bank borrowings, equity financings, shareholder loans 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.

On May 14, 2019 the Company issued 23.6 million common shares at a price of HK$1.50 per share (approximately C$0.25 per share) for gross proceeds of HK$35.4 million (approximately C$6.0 million) (the "**Subscription**"). Net proceeds from the Subscription were used for the expansion of its existing business, the development of new business, bank debt, and general working capital.

As at December 31, 2019, the Company had a working capital deficiency of C$26.6 million (including C$22.1 million of long term debt as discussed below), used cash in operating activities of C$1.4 million for the year ended December 31, 2019, and has drawn C$23.6 million on its subordinated debt facility of C$26.0 million as at December 31, 2019.

As at December 31, 2019, the Company was not in compliance with its net debt to total proved reserves covenant (refer to Note 13 in the audited financial statements for the year ended December 31, 2019), and therefore the debt is due on demand. Accordingly, the outstanding debt balance including accrued interest in the total amount of C$22.1 million has been classified as a current liability as at December 31, 2019. Subsequent to December 31, 2019, the Company has received a waiver in respect of this covenant breach.

The Company was also not in compliance with certain covenants as at March 31, 2020, and on April 28, 2020, the Company and lender agreed to restructure the loan agreement (the "**Restructuring**"). Under the terms of the Restructuring, financial covenants in respect of working capital, net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13 in the audited financial statements for the year ended December 31, 2019) have been waived for the remainder of 2020, and will be reinstated starting March 31, 2021. A new funding covenant has been added under which the Company must secure additional capital in the form of new equity and/or subordinate debt for a cumulative amount equal to or greater than C$2 million on or before June 30, 2020. There is also an instalment payment plan whereby the Company would be required to make monthly payments if the amount of the loan exceeds C$20 million after July 1, 2021, or if the loan exceeds C$15 million after January 1, 2022.

The global impact of COVID-19 has resulted in significant declines in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. In addition, there has been a significant drop in the price of oil in global and Canadian markets. These factors may have a negative impact on the Company's operations and its ability to raise financing to meet its funding covenant. If the Company is in breach of any covenants in future periods the lender will have the right to demand repayment of all amounts owed under the subordinated debt.

The Company's ability to continue as a going concern is dependent upon the ability to generate positive cash flow from operations, equity and/or debt financing, disposing of assets or other arrangements to fund future development capital and ongoing operations. There are no assurances that any transactions will be completed on terms acceptable to the Company. These conditions cause material uncertainty which casts significant doubt on the Company's ability to continue as a going concern.

Use of Proceeds from the Subscription

Business objective as stated in the announcement[1]	% of total net proceeds	Planned use of net proceeds from the Closing Date to December 31, 2019[2] C$'000	Actual use of net proceeds during the period from the Closing Date to December 31, 2019[2] C$'000	Proceeds unused C$'000
Expansion of existing business[3]	83%	5.0	5.0	—
Development of new business[4]	3%	0.2	0.2	—
General working capital	14%	0.8	0.8	—
Total	**100%**	**6.0**	**6.0**	**—**

Notes:

(1) Refer to the Company's announcement dated March 25, 2019.

(2) The Subscription was closed on May 14, 2019 (the "**Closing Date**").

(3) Activities associated with the expansion of existing business includes testing and preparation of the Company's Voyager wells for tie-in and first production following completion of the Jixing pipeline and repayment of the Company's senior debt facility.

(4) Activities associated with development of new business included front end engineering for the Company's Voyager production and evaluation of the Company's future drilling inventory.

SHARES, WARRANTS AND STOCK OPTIONS OUTSTANDING

Common Shares

On May 14, 2019, the Company completed a private placement issuing 23.6 million shares at a price of HK$1.50 per share (approximately C$0.25 per share) for gross proceeds of HK$35.4 million (approximately C$6.0 million). As at December 31, 2019 and as at the date of this MD&A, the Company has 301,886,520 common shares outstanding.

Warrants

On August 13, 2018, the Company issued 8.0 million warrants for total consideration of C$0.75 million. The warrants have an exercise price of HK$3.16 per warrant and a term of 5 years. No warrants have been exercised during the years ended December 31, 2019 and 2018 and up to the date of the MD&A.

Stock Options

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, 2019 and there were no outstanding options issued under the Stock Option Plan as at December 31, 2019 and up to the date of this MD&A.

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, 2019. The following table summarizes the timing of the Company's commitments as at December 31, 2019:

	Total C$'000	**Less than 1 year** C$'000	**1–3 years** C$'000	**4–5 years** C$'000	**After 5 years** C$'000
Transportation commitment	41,024	6,661	12,760	12,359	9,244
PSG facility	1,800	1,800	—	—	—
Total	42,824	8,461	12,760	12,359	9,244

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	8.00	2013-11-01	2021-10-31	8 years
Persta New FT-R	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.

The Company has also entered into physical contracts to manage commodity risk. Refer to "*Financial Risk Management*" below for a summary of these contracts.

DIVIDEND

The Board did not recommend the payment of a dividend for the years ended December 31, 2019 and 2018.

RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

Key management compensation for the year ended December 31, 2019 totaled C$1.6 million (2018: C$1.6 million).

(b) Transactions with directors

Directors' Fees and Phantom Unit Plan

Each of the independent non-executive director's compensation is C$100,000 per year, C$40,000 paid in cash quarterly (C$10,000 per quarter), and C$60,000 paid in Phantom Units quarterly (C$15,000 per quarter). The directors' fees reflect the adjustment for the fair value of the Phantom Unit component as described in Note 19 of the audited financial statements for the year ended December 31, 2019. During the year ended December 31, 2019, the Company recovered C$0.16 million of directors' compensation per the Phantom Unit Plan (as a result of the decrease in the trading price of the Company's common shares). The recovery was reduced by the C$0.12 million of cash compensation paid during the year, for a net recovery of C$0.04 million for the year ended December 31, 2019. As at December 31, 2019, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$0.22 million (2018: C$0.37 million).

Jixing Gas Handling and Voyager Compression Agreements

On May 9, 2019, the Company entered into a gas handling agreement with Jixing Energy (Canada) Ltd. ("**Jixing**") (collectively the "**Jixing Gas Handling Agreement**"). Jixing is a private Canadian company controlled by Yongtan Liu, who was appointed as director and Chairman of the Company on December 18, 2019. Under the terms of the Jixing Gas Handling Agreement, the Company will transport its gas from the Voyager area through Jixing's gas gathering system. The agreement has a term of May 9, 2019 to December 31, 2044, however the Company's obligation to transport its gas will commence only after Jixing's gas handling system is completed and commissioned. The Company forecasts Voyager gas production will commence late in the second quarter of 2020.

On November 1, 2019, the Company and Jixing entered into a gas compression agreement (the "**Jixing Voyager Compression Agreement**"). The agreement has a term of November 1, 2019 to December 31, 2026, however the Company's obligations will commence only after Jixing's gas compression system is completed and commissioned. The Company forecasts Voyager gas production will commence late in the second quarter of 2020.

Under the terms of the Jixing Gas Handling and Jixing Voyager Compression Agreements, upon commencement of Voyager gas production, the Company will pay the following tariffs to Jixing:

	Monthly Gas Handling C$	Monthly Compression C$	Total Monthly C$	Total Annual C$
2020	361,000	146,000	507,000	6,084,000
2021	441,000	146,000	587,000	7,044,000
2022	474,000	146,000	620,000	7,440,000
2023	551,000	146,000	697,000	8,364,000
2024	648,000	146,000	794,000	9,528,000
2025	764,000	146,000	910,000	10,920,000
2026	912,000	146,000	1,058,000	12,696,000
2027–2044	433,000	—	433,000	5,196,000

Prior to December 18, 2019, Jixing was not a related party to the Company, the terms of the agreements were determined through arm's length negotiations, giving reference to the prevailing market rates quoted on normal commercial terms by providers of similar services in the same or nearby geographical regions.

Shareholder Loan

On December 23, 2019, Jixing advanced C$0.675 million to the Company (the "**Shareholder Loan**"). The full proceeds of the Shareholder Loan were applied to amounts due in respect of the Master Turnkey Drilling and Completion Contract (refer to Note 12 in the audited financial statements for the year ended December 31, 2019). The Shareholder Loan has a term of two years, is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company's sole discretion. As at December 31, 2019, the fair value of the Company's shareholder loan was C$73,895 lower than its face value.

OFF-BALANCE SHEET TRANSACTIONS

The Company was not involved in any off-balance sheet transactions during the years ended December 31, 2019 and 2018.

PLEDGED ASSETS

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

CONTINGENT LIABILITIES

In June 2019 the Company received a Notice of Collection ("**NOC**") from the Canada Revenue Agency ("**CRA**"). The NOC stated that there was a balance owing to the CRA of approximately C$7.8 million for non-resident Withholding Taxes ("**WHT**") resulting from common shares issued to settle approximately C$56.2 million of debt held by a foreign company controlled by a Persta director who is not a resident of Canada.

In August 2019, the Company filed a Notice of Objection ("**NOO**") in respect of this matter which was accepted by the CRA on September 2, 2019, initiating an administrative appeals process where the CRA reviewed the evidence the Company had provided in support of its position that the NOC was issued in error and no WHT were due in respect of the debt settlement.

On February 3, 2020, the Company received written confirmation that the CRA was vacating its previous assessment and eliminating all assessed withholding tax and associated interest and penalties relating to the debt settlement. As it was the Company's view that the NOO would be successful, a provision was not previously recorded in the Company's financial statements. Therefore, there was no impact to the financial statements relating to this matter for the year ended December 31, 2019.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as disclosed in this MD&A, the Company has neither any other significant investments nor significant acquisitions and disposals of the relevant subsidiaries, associates and joint ventures during the year ended December 31, 2019 and up to the date of this MD&A.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

EVENTS AFTER THE REPORTING PERIOD

COVID-19

The global impact of COVID-19 has resulted in significant declines in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. In addition, there has been a significant drop in the price of oil in global and Canadian markets. These factors may have a negative impact on the Company's operations and its ability to raise financing in the near future or on terms favourable to the Company. The potential impact that COVID-19 will have on the Company's business or financial results cannot be reasonably estimated at this time.

SubDebt Restructuring

On April 28, 2020, the Company and its subordinated debt lender agreed to restructure the loan agreement (the "**Restructuring**"). Under the terms of the Restructuring, financial covenants in respect of working capital, net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13 to the Company's audited annual financial statements for the year ended December 31, 2019) have been waived for the remainder of 2020, and will be reinstated March 31, 2021. A new funding covenant has been added under which the Company must secure additional capital in the form of new equity and/or subordinate debt for a cumulative amount equal to or greater than C$2 million on or before June 30, 2020. There is also an instalment payment plan whereby the Company would be required to make monthly payments if the amount of the loan exceeds C$20 million after July 1, 2021, or if the loan exceeds C$15 million after January 1, 2022.

Pursuant to the Restructuring, the Company has also agreed to re-price the 8 million share purchase warrants previously issued to the SubLender. This re-pricing is subject to shareholder approval. The new exercise price of the warrants will be calculated based on the volume weighted average price of the Common Shares on the Stock Exchange for the five trading days immediately preceding the date on which the re-pricing of the exercise price of the warrants is approved by the shareholders.

FINANCIAL RISK MANAGEMENT

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board has implemented and monitors compliance with risk management policies. 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. The Company's financial risks are discussed in Note 27 of the Company's audited financial statements for the year ended December 31, 2019.

The Company holds a number of financial instruments, the most significant of which are accounts receivable, accounts payable and accrued liabilities, cash and cash equivalents, bank loan, subordinated debt and a shareholder loan. Due to their near term maturities, accounts receivable, accounts payable and accrued liabilities, cash and cash equivalents and shareholder loan are recorded at fair value. Bank loans and subordinated debt are recorded at amortized cost.

The Company did not enter into any financial derivatives contracts for the year ended December 31, 2019. For the year ended December 31, 2019, the Company experienced a foreign exchange loss of C$17,928. These foreign exchange losses are related to the revaluation of monetary items held in Hong Kong Dollars and the value changes with the fluctuation in the Hong Kong Dollars/Canadian Dollars exchange rates. 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.

The Company has entered into physical contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the financial statements. As at December 31, 2019, the Company has entered into the following fixed price physical commodity contract to forward sell natural gas at a fixed daily volume and fixed price per gigajoule ("**GJ**"):

Commodity	Term	Quantity	Price
Natural gas	January 1, 2020 to October 31, 2020	2,000 GJ/day	C$1.80 per GJ
Natural gas	January 1, 2020 to October 31, 2020	1,000 GJ/day	C$1.7925 per GJ
Natural gas	January 1, 2020 to October 31, 2020	5,000 GJ/day	C$1.80 per GJ

RELATIONSHIPS WITH STAKEHOLDERS

The Company has actively cultivated, established, and maintained positive relationships with First Nations and all individuals and other enterprises who are proximate to, or interested in, the Company's projects. The Company provides project updates and meets with the local community on a regular basis to discuss its current and anticipated operations to pro-actively manage any potential concerns or issues. The Company also works closely with stakeholders at the municipal, provincial, and federal level to ensure that the regulatory authorities are aware of the Company's adherence to all requisite rules, regulations, and laws which pertain the Company's activities.

HUMAN RESOURCES

The Company had 10 employees as at December 31, 2019 and 2018. 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. Employee compensation for the year ended December 31, 2019 totaled C$1.6 million (2018: C$2.2 million).

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 5 of the audited financial statements for the year ended December 31, 2019.

CHANGES IN ACCOUNTING POLICIES

The following standard as issued by the International Accounting Standards Board ("**IASB**") has been adopted by the Company effective January 1, 2019:

IFRS 16 — Leases

In January 2016, the IASB issued IFRS 16 Leases ("**IFRS 16**"), which replaces the existing IFRS guidance on leases: IAS 17 Leases ("**IAS 17**"). Under IAS 17, lessees were required to determine if the lease is a finance or operating lease, based on specified criteria of whether the lease transferred significantly all the risks and rewards associated with ownership of the underlying asset. Finance leases are recognized on the statement of financial position while operating leases are recognized in the statement of loss and comprehensive loss when the expense is incurred. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for most lease contracts. The recognition of the present value of minimum lease payments for certain contracts previously classified as operating leases resulted in increases to assets, liabilities, depletion, depreciation and amortization, and finance expense, and decreases to production, operating and transportation expense and general and administrative expenses.

The Company has adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening deficit and applies the standard prospectively. Accordingly, comparative information in the Company's financial statements are not restated.

On adoption, lease liabilities were measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate on January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability. For leases previously classified as operating leases, the Company applied the exemption not to recognize right-of-use assets and liabilities for leases with a lease term of less than 12 months, leases of low-value assets defined as leases with an annual obligation of C$5,000 or less, and excluded initial direct costs from measuring the right-of-use asset at the date of initial application, and applied a single discount rate to a portfolio of leases with similar characteristics. On adoption, and as at December 31, 2019, the Company held no leases that were previously classified as finance leases under IAS 17, or leases where the Company was a lessor.

Financial Statement Impact

The recognition of the present value of minimum lease payments resulted in an additional C$3.05 million of right-of-use assets and associated lease liabilities at January 1, 2019. The Company has recognized lease liabilities in relation to lease arrangements previously disclosed as operating lease commitments under IAS 17 that meet the criteria of a lease under IFRS 16. Upon recognition, the Company's weighted average incremental borrowing rate used in measuring lease liabilities was 8.4%. The nature of the Company's leasing activities includes equipment for the use of producing reserves from its oil and gas properties and office space. Refer to Note 11 in the audited financial statements for the values recognized upon implementation in each asset class.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

For the year ended December 31, 2019, Mr. Le Bo, Chief Executive Officer ("**CEO**"), and Mr. Jesse Meidl, Chief Financial Officer ("**CFO**") of the Company 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 CEO and CFO by others, particularly during the period in which the annual and quarterly filings are being 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.

For the year ended December 31, 2019, Mr. Le Bo and Mr. Jesse Meidl, in their capacity as CEO and CFO of the Company respectively, 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 and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

There were no changes made to Persta's internal controls over financial reporting during the period beginning on January 1, 2019 and ending on December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. On March 4, 2020, Mr. Le Bo resigned as CEO of the Company, on the same date, Mr. Pingzai Wang was appointed as CEO of the Company. Mr. Wang was previously the Vice President, Exploration of the Company and has been an employee of Persta since 2006.

Management has concluded that Persta's internal control over financial reporting was effective as of December 31, 2019. 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.

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 the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2019. The AIF is available at www.sedar.com.

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.

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,		
C$'000s	**2019**	2018	Change	**2019**	2018	Change
Oil and natural gas production	**4,897**	3,286	49%	**13,627**	15,364	(11%)
Net trading revenue	**12**	174	(93%)	**630**	661	(5%)
Royalties	**(1,119)**	(266)	320%	**(2,447)**	(1,164)	110%
Operating costs	**(1,510)**	(1,581)	(4%)	**(7,593)**	(5,354)	42%
Operating netback	**2,280**	1,614	41%	**4,217**	9,508	(56%)

Adjusted EBITDA

C$'000s	Three months ended December 31, 2019	2018	Change	Year ended December 31, 2019	2018	Change
Oil and natural gas production	**4,897**	3,286	49%	**13,627**	15,364	(11%)
Net trading revenue	**12**	174	(93%)	**630**	661	(5%)
Royalties	**(1,119)**	(266)	320%	**(2,447)**	(1,164)	110%
Operating costs	**(1,510)**	(1,581)	(4%)	**(7,593)**	(5,354)	42%
General and administrative costs	**(1,026)**	(1,919)	(47%)	**(4,191)**	(5,585)	(25%)
Other income	**34**	793	(96%)	**78**	813	(90%)
Adjusted EBITDA	**1,287**	489	163%	**104**	4,736	(98%)

SELECTED ABBREVIATIONS

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

Crude oil and natural gas liquids

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

Natural gas

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

Other

km	kilometres
km^2	square kilometres
m	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.

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, 2019.

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, 2019 (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.

Board Composition

Up to the date of this annual report, the Board comprises five directors, including one executive Director, one non-executive Director and three independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors:
Mr. Yongtan Liu (Chairman of the Board)
— appointed as executive Director and the Chairman of the Board on December 18, 2019
Mr. Le Bo (President, Chairman of the Board and Chief Executive Officer)
— resigned as executive Director, Chairman of the Board on December 18, 2019; and resigned as President and Chief Executive Officer on March 4, 2020

Non-executive Director:
Mr. Yuan Jing

Independent non-executive Directors:
Mr. Richard Dale Orman
Mr. Bryan Daniel Pinney
Mr. Peter David Robertson

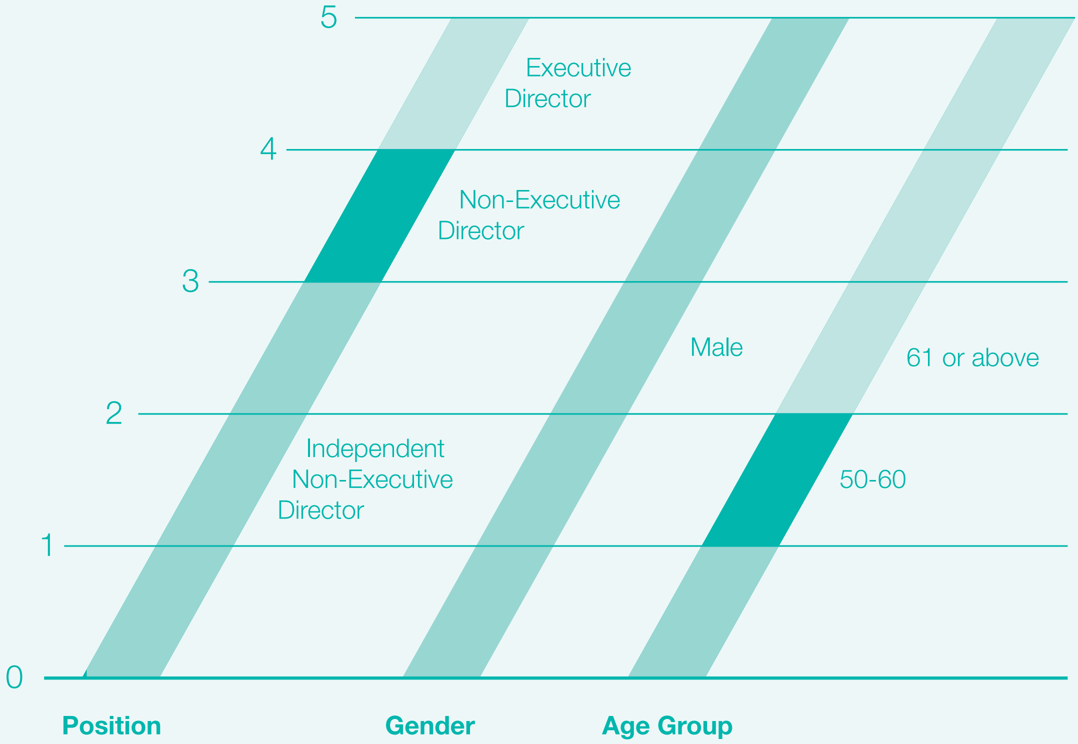
During the period from January 1, 2019 to December 18, 2019, the Board was comprised of one executive Director, namely Mr. Le Bo, one non-executive Director, namely Mr. Yuan Jing, and three independent non-executive Directors, namely Mr. Richard Dale Orman, Mr. Bryan Daniel Pinney and Mr. Peter David Robertson. On December 18, 2019, Mr. Le Bo resigned as chairman of the Board, and on the same day Mr. Yongtan Liu was appointed executive chairman of the Board.

During the year ended December 31, 2019, 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.

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 in "Profiles of Directors and Senior Management" in 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.

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 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, 2019. 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 (resigned on December 18, 2019), Mr. Yongtan Liu (Appointed on December 18, 2019), 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 (resigned on December 18, 2019), Mr. Yongtan Liu (Appointed on December 18, 2019), Mr. Yuan Jing, Mr. Richard Dale Orman, Mr. Bryan Daniel Pinney and Mr. Peter David Robertson, have been updated with the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

Chairman and Chief Executive Officer

During the period from January 1, 2019 to December 18, 2019, Mr. Le Bo was the chairman of the Board and chief executive officer ("**CEO**") of the Company. Although this deviates from the practice under code provision A.2.1 of the CG Code, where it provides that the two positions should be held by two different individuals, as Mr. Bo has considerable experience in the enterprise operation and management of the Company, the Board believed that it was in the best interests of the Company and its shareholders as a whole to have Mr. Bo as chairman of the Board so that it could benefit from his experience and 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 were made collectively by way of voting and therefore the chairman should not be able to monopolize the decision-making of the Board. The Board considered that the balance of power between the Board and management could still be maintained under such structure.

On December 18, 2019, Mr. Le Bo resigned as the chairman of the Board but remained as the CEO of the Company. Mr. Yongtan Liu was appointed as the chairman of the Board on the same day whereupon the roles of the chairman of the Board and CEO are segregated and assumed by two separate individuals who have no relationship with each other to ensure that the power and authority are not concentrated in any one individual for the purpose of code provision A.2.1 of the CG Code. On March 4, 2020, Mr. Le Bo resigned as CEO of the Company, on the same date Mr. Pingzai Wang was appointed as CEO.

Appointment and Re-Election of Directors

Mr. Le Bo's service contract as executive Director of the Company was terminated on December 18, 2019 with his resignation from the Board. On the same date, Mr. Yongtan Liu entered into a service agreement as executive Director for an initial term of three years.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company for an initial term of three years commencing from February 26, 2017. The term of appointment was automatically extended for an additional three years on February 26, 2020, and the term of appointment shall be automatically extended under the same terms of the service contract 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 CEO.

Majority Voting Policy

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

Board Meetings

The Company adopts the practice of holding board meetings regularly, at least 4 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, 2019, 6 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 *(Resigned on December 18, 2019)*	5/6
Mr. Yongtan Liu *(Appointed on December 18, 2019)*	1/1
Mr. Yuan Jing	0/6
Mr. Richard Dale Orman	4/6
Mr. Bryan Daniel Pinney	6/6
Mr. Peter David Robertson	6/6

During the year ended December 31, 2019, six 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 *(Resigned on December 18, 2019)*	5/6
Mr. Yongtan Liu *(Appointed on December 18, 2019)*	1/1
Mr. Yuan Jing	0/6
Mr. Richard Dale Orman	4/6
Mr. Bryan Daniel Pinney	6/6
Mr. Peter David Robertson	6/6

During the year ended December 31, 2019, one annual general and one special meeting of shareholders were held and the attendance at these meetings is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Le Bo *(Resigned on December 18, 2019)*	2/2
Mr. Yongtan Liu *(Appointed on December 18, 2019)*	N/A(1)
Mr. Yuan Jing	0/2
Mr. Richard Dale Orman	2/2
Mr. Bryan Daniel Pinney	2/2
Mr. Peter David Robertson	2/2

(1) Both meetings were held before Mr. Yongtan Liu's appointment to the board on December 18, 2019.

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 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. From January 1, 2019 to December 18, 2019 it was comprised of Mr. Le Bo (chairman), Mr. Bryan Daniel Pinney and Mr. Peter David Robertson, the majority of whom are independent non-executive Directors. From December 18, 2019 and to the date of this annual report it was comprised of Mr. Yongtan Liu (chairman), Mr. Bryan Daniel Pinney and Mr. Peter David Robertson, the majority of whom 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, 2019, two meetings of the Nomination Committee were 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, resigned on December 31, 2019)*	2/2
Mr. Yongtan Liu *(Chairman, appointed on December 18, 2019)*	N/A(1)
Mr. Bryan Daniel Pinney	2/2
Mr. Peter David Robertson	2/2

(1) No meetings were held after Mr. Yongtan Liu's appointment to the board on December 18, 2019.

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

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.

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. From January 1, 2019 to December 18, 2019 it was comprised of Mr. Richard Dale Orman (chairman), Mr. Le Bo and Mr. Bryan Daniel Pinney, the majority of them are independent non-executive Directors. From December 18, 2019 and to the date of this annual report it was comprised of Mr. Richard Dale Orman (chairman), Mr. Yongtan Liu 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.

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

During the year ended December 31, 2019, two meetings of the Remuneration Committee were 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)*	2/2
Mr. Le Bo *(resigned on December 18, 2019)*	2/2
Mr. Yongtan Liu *(appointed on December 18, 2019)*	N/A[(1)]
Mr. Bryan Daniel Pinney	2/2

(1) No meetings were held after Mr. Yongtan Liu's appointment to the board on December 18, 2019.

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 in "Profiles of Directors and Senior Management" in this annual report, for the year ended December 31, 2019 are set out below:

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

Phantom Unit Plan

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

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

On each date in which Phantom Units are to be allotted (the "**Unit Allotment Date**") to an Eligible Director participating in the Phantom Unit Plan (a "**Participant**"), a number of Phantom Units determined by dividing (i) an amount equal to the Designated Percentage of the Fees to have credited in Phantom Units on that Unit Allotment Date, by (ii) the Fair Market Value (the weighted average trading price of the Shares on any exchange where the Shares are listed including the Main Board for the last 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. In December 2019, the directors agreed that any amounts due at the Redemption Date would be paid by the Company not less than 366 days after the Redemption Date.

The Phantom Unit Plan became effective on the Listing Date. Details of the Phantom Unit Plan are set out in Note 19 to the Company's audited financial statements for the year ended December 31, 2019.

Audit and Risk Committee

During the Period, the Audit and Risk Committee comprised 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. Effective as of April 29, 2020, Mr. Peter David Robertson assumed the position as the chairman of the Audit and Risk Committee and Mr. Bryan Daniel Pinney remained as a member. 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, 2019, 8 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)*	8/8
Mr. Richard Dale Orman	6/8
Mr. Peter David Robertson	8/8

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 Stock Exchange and the Company.

Furthermore, the Audit and Risk Committee is responsible for the development, implementation and monitoring of the Company's health, safety, environment, asset integrity management and corporate security policies.

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, 2019 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.

Material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern are disclosed in Note 3 of the audited financial statements for the year ended December 31, 2019. 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 for the Company's risk management and 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, 2019, 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. Given the small size of the Company (10 full time employees as at December 31, 2019) and limited number of transactions processed annually, the Company does not have an internal audit function. In lieu, 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, 2019. 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, 2019, 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.

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 2019 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$181,500 in 2019 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$25,500 in 2019 for non-audit services related to tax compliance services.

COMPANY SECRETARY AND PRIMARY CONTACT OF THE COMPANY

The Company engaged Mr. Bennett Ka-Ying Wong, a partner in the Corporate Finance and M&A Group of the law firm of 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, 2019, 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.

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.

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, 2019.

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, 2019.

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 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, 2019 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, 2019.

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.

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 in the section Five-Year Financial Summary in this annual report. This summary does not form part of the audited financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended December 31, 2019, the Company's largest customer accounted for approximately 80% of the Company's total revenue, and the Company's five largest customers accounted for 100% of the Company's total revenue.

For the year ended December 31, 2019, the Company's largest supplier accounted for approximately 24% of the Company's total cost of sales. The Company's five largest suppliers accounted for approximately 35% 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, 2019 are set out in Note 10 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2019 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, 2019 are set out in the section headed "Statement of Changes In Shareholders' Equity" in this annual report.

DISTRIBUTABLE RESERVES

As at December 31, 2019, the Company's distributable reserves were nil.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company as at December 31, 2019 are set out in Note 13 to the financial statements.

LOAN AND GUARANTEE

During the year ended December 31, 2019, 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, 2019 and up to the date of this report were:

Executive Directors:

Mr. Le Bo *(Chairman)* — until December 18, 2019
Mr. Yongtan Liu *(Chairman)* — from December 18, 2019 and to the date of this annual report

Non-executive Director:

Mr. Yuan Jing

Independent non-executive Directors:

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

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company as at the date of this annual report are set 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, 2019.

DIRECTORS' SERVICE CONTRACT AND LETTER OF APPOINTMENTS

Mr. Le Bo's service contract as executive Director of the Company was terminated on December 18, 2019 with his resignation from the Board. On the same date, Mr. Yongtan Liu entered into a service agreement as executive Director for an initial term of three years.

Each of the non-executive Directors and the independent non-executive Directors has signed an appointment letter with the Company for an initial term of three years commencing from February 26, 2017. The term of appointment was automatically extended for an additional three years on February 26, 2020, and the term of appointment shall be automatically extended under the same terms of the service contract 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

Details of directors' interests in contracts of significance are set out in Note 26 to the financial statements.

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, 2019.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of controlling shareholder interests in contracts of significance are set out in Note 26 to the financial statements.

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, 2019. The employees of the Company are employed under employment contracts which set out, among other things, their job scope and remuneration. Further details of their employment terms are set out in the employee handbook of the Company. The Company determines the employees' salaries based on their job nature, scope of duty, and individual performance. The Company also provides reimbursements, allowances for site visits and a discretionary annual bonus for the employees. The Company also provides employees with welfare benefits in accordance with the applicable laws and the internal policies of the Company.

RETIREMENT BENEFITS SCHEME

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

EMOLUMENT POLICY

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

As at December 31, 2019, 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)	61.90%
Yuan Jing (Notes 2 and 3)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	61.90%
Mr. Liu Yongtan (Note 4)	Security interest, interest in controlled corporation and interest of spouse	185,982,832	61.61%
	Interest in controlled corporation and interest of spouse	23,600,000	7.82%

Notes:

1. Director of the Company until his resignation on December 18, 2019. 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.

   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 61.90% 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 61.90% 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 61.90% of the total issued Common Shares of the Company.

4. Appointed as director on December 18, 2019. Jixing Gas Holdings Limited is owned as to 100% by Changchun City Jixing Gas Service for Auto Co. Ltd. which is owned as to 66.70% and 33.30% by Mr. Liu Yongtan ("**Mr. Liu**") and Ms. Zhang Lijun ("**Ms. Zhang**"), respectively. Jixing Gas Holdings Limited also has an interest in 185,982,832 shares as security interest. Ms. Zhang is the spouse of Mr. Liu. Accordingly, Ms. Zhang is deemed, or taken to be, interested in the Shares which Mr. Liu is interested in for the purposes of the SFO.

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	Interest in controlled corporation	Long position	36,907,603	39.69%
Yuan Jing (Note 2)	Aspen	Interest in controlled corporation	Long position	38,213,630	41.09%
Yongtan Liu (Note 3)	Changchun Jixing Gas Holdings Limited	Security interest Beneficial owners	Long position Long position	N/A N/A	66.70% 66.70%

Notes:

1. Director of the Company until his resignation on December 18, 2019. 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.

3. Appointed as director on December 18, 2019. Jixing Gas Holdings Limited is owned as to 100% by Changchun City Jixing Gas Service for Auto Co. Ltd. ("**Changchun**") which is owned as to 66.70% and 33.30% by Mr. Liu and Ms. Zhang, respectively. Jixing Gas Holdings Limited also has an interest in 185,982,832 shares as security interest.

Save as disclosed above, as at December 31, 2019, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register of the Company required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended December 31, 2019 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, 2019, 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)	61.90%
JLHY (Notes 1 and 3)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	61.90%
Jing Hou (Note 4)	Beneficial owner, interest of spouse and parties acting in concert	186,862,832 (Long Position)	61.90%
164 Co (Notes 1 and 5)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	61.90%
Liyuan (Note 6)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	61.90%
Guang Jing (Note 7)	Interest in controlled corporation	186,862,832 (Long Position)	61.90%
Jixing Gas Holding Limited (Note 8)	Security interest	185,982,832	61.61%
	Beneficial owner	23,600,000	7.82%

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Changchun City Jixing Gas Service for Auto Co. Ltd. (Note 8)	Security interest	185,982,832	61.61%
	Interest in controlled corporation	23,600,000	7.82%
Ms. Zhang (Notes 8 and 9)	Security interest, interest in controlled corporation and interest of spouse	185,982,832	61.61%
	Interest in controlled corporation and interest of spouse	23,600,000	7.82%

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

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.

8. Jixing Gas Holdings Limited is owned as to 100% by Changchun City Jixing Gas Service for Auto Co. Ltd. which is owned as to 66.70% and 33.30% by Mr. Liu and Ms. Zhang, respectively. Jixing Gas Holdings Limited also has an interest in 185,982,832 shares as security interest. Ms. Zhang is the spouse of Mr. Liu. Accordingly, Ms. Zhang is deemed, or taken to be, interested in the Shares which Mr. Liu is interested in for the purposes of the SFO.

9. Ms. Zhang is the spouse of Mr. Liu. Accordingly, Ms. Zhang is deemed, or taken to be, interested in the Shares which Mr. Liu is interested in for the purposes of the SFO.

Save as disclosed above, and as at December 31, 2019, 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.

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, 2019, 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.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2019, the Company and Jixing Energy (Canada) Ltd. entered into a gas handling agreement, which subsequently became continuing connected transactions of the Company following the appointment of Mr. Liu as an executive Director under Chapter 14A of the Listing Rules. Details of the connected transactions and/or continuing connected transactions entered into during the year ended December 31, 2019 are set out in Note 4 of the financials statements in this annual report.

Details of the above continuing connected transactions have been disclosed in accordance with Chapter 14A of the Listing Rules and are set out in the announcements of the Company dated December 19, 2019 and December 23, 2019, which are available on the respective websites of the Stock Exchange and the Company.

Confirmations from the Company

The Company has conducted a review of its continuing connected transactions and confirmed that such transactions had complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Confirmations from the independent non-executive directors

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed the continuing connected transactions for the year ended December 31, 2019 and confirmed that they had been entered into:

(i) in the ordinary and usual course of the business of the Company;

(ii) on normal or better commercial terms; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company for the year ended December 31, 2019 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, 2019, 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, 2019.

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, 2019. 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.

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, 2019 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, 2019.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended December 31, 2019, 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, 2019 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.

CHANGES IN THE BOARD AND THE DIRECTORS' INFORMATION

The changes in the Board since the date of the Company's 2019 interim report are set out below:

(1) With effect from December 18, 2019, Mr. Le Bo has resigned as an executive Director, the Chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee; and

(2) With effect from December 18, 2019, Mr. Yongtan Liu has been appointed as an executive Director, the Chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee.

There is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

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, 2019, the statements of loss and 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 present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "*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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 3 in the financial statements, which indicates that the Company is in violation of one or more debt covenants at December 31, 2019 and March 31, 2020, and consequently the lender has the right to demand immediate repayment of the debt. As stated in Note 3 in the financial statements, these events or conditions, along with other matters as set forth in Note 3 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the "*Material Uncertainty Related to Going Concern*" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

The key audit matter	How the matter was addressed in our audit
Valuation of property, plant and equipment ("PP&E") Refer to note 10 to the financial statements.	
The Company recorded an impairment of $15.2 million related to PP&E. The Company identified an indicator of impairment at December 31, 2019 and performed an impairment test to estimate the recoverable amount of the Company's cash generating units ("CGUs"). The estimated recoverable amount of the CGUs involves numerous estimates, including the cash flows associated with the estimated proved and probable oil and gas reserves, and the discount rate. The estimation of proved and probable reserves involves the expertise of qualified reserves evaluators, who take into consideration assumptions related to forecasted production, forecasted operating, royalty and capital cost assumptions and forecasted oil and gas prices ("reserves assumptions"). The Company engages independent qualified reserves evaluators to evaluate the estimate of proved and probable oil and gas reserves associated with the CGUs. We identified the assessment of the recoverable amount of the CGUs as a key audit matter. Complex auditor judgment was required in evaluating the Company's estimate of the proved and probable oil and gas reserves for the CGUs, and the discount rate, which were inputs into the calculation of the recoverable amount of the CGUs. Auditor judgment was also required to evaluate the reserve assumptions used in the estimate of the reserves associated with the CGUs.	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 impairment indicators and the methodology adopted by management in the impairment assessments with reference to the requirements of the prevailing accounting standards. • Evaluating the competence, capabilities, and objectivity of the independent qualified reserves evaluators engaged by the Company, and the methodology used by the independent qualified reserves evaluators. • Comparing the 2019 actual production, operating, royalty and capital costs of the Company to those estimates used in the prior year's estimate of proved reserves to assess the Company's ability to accurately forecast. • Comparing the forecasted commodity prices used in the estimate of proved and probable reserves to those published by other reserve engineering companies. • Comparing estimates of forecasted production, forecasted operating, royalty and capital cost assumptions used in the estimate of proved and probable reserves to historical results. • Examining the impairment test completed by the Company, with the assistance of a valuation specialist with specialized skill and knowledge who assisted in evaluating the Company's discount rate, by comparing it against market data and other external data. The valuation specialist estimated the recoverable amount of the CGUs using the estimate of the cash flows associated with the CGUs' reserves and the discount rate evaluated by the specialist and compared the results to market data and other external pricing data.

The key audit matter	How the matter was addressed in our audit
	• Evaluating the disclosures in the financial statements in respect of the impairment assessment of the CGUs and the key assumptions adopted with reference to the requirements of the prevailing accounting standards.

Valuation of Exploration and Evaluation ("E&E") Assets
Refer to note 9 to the financial statements.

The key audit matter	How the matter was addressed in our audit
The Company recorded an impairment of $25.3 million related to E&E assets. The Company identified an indicator of impairment at December 31, 2019 and performed an impairment test to estimate the recoverable amount of the Company's Voyager E&E assets. The estimated recoverable amount of the E&E assets involves numerous estimates, including the cash flows associated with the estimated proved and probable oil and gas reserves, and the discount rate. The estimation of proved and probable reserves involves the expertise of qualified reserves evaluators, who take into consideration reserves assumptions. The Company engages independent qualified reserves evaluators to evaluate the estimate of proved and probable oil and gas reserves associated with the Voyager E&E assets. We identified the assessment of the recoverable amount of the Voyager E&E assets as a key audit matter. Complex auditor judgment was required in evaluating the Company's estimate of the proved and probable oil and gas reserves for the Voyager E&E assets, and the discount rate, which were inputs into the calculation of the recoverable amount of the Voyager E&E assets. Auditor judgment was also required to evaluate the reserve assumptions used in the estimate of the reserves associated with the Voyager E&E assets.	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. • Examining and challenging management's assessment of impairment indicators, focusing on status of the evaluation and development activities. • Examining the methodology adopted by management in the impairment assessments with reference to the requirements of the prevailing accounting standards. • Evaluating the competence, capabilities, and objectivity of the independent qualified reserves evaluators engaged by the Company, and the methodology used by the independent qualified reserves evaluators. • Examining the impairment test completed by the Company, with the assistance of a valuation specialist with specialized skill and knowledge who assisted in evaluating the Company's discount rate, by comparing it against market data and other external data. The valuation specialist estimated the recoverable amount of the Voyager E&E assets using the estimate of the cash flows associated with the Voyager E&E assets' reserves and the discount rate evaluated by the specialist and compared the results to market data and other external pricing data. • Evaluating the adequacy of the Company's disclosure in this area.

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

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

— the information included in the Management's Discussion and Analysis.

— the information, other than the financial statements and the auditor's 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.

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.

The information, other than the financial statements and the auditor's report thereon, include in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditor's 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 preparation 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 skepticism throughout the audit. We also:

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

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

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

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

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

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.

Independent Auditor's Report

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

KPMG LLP

Chartered Professional Accountants
Calgary, Canada
April 29, 2020

Statement of Financial Position

As at December 31, 2019 (Expressed in Canadian dollars)

	Note	As at December 31, 2019 C$	As at December 31, 2018 C$
Assets			
Current assets:			
Cash and cash equivalents	7	**1,060,752**	2,605,709
Accounts receivable	8	**1,789,983**	1,196,062
Prepaid expenses and deposits		**608,391**	796,744
Total current assets		**3,459,126**	4,598,515
Exploration and evaluation assets	9	**18,543,990**	43,484,822
Property, plant and equipment	10	**34,650,210**	55,498,465
Right of use assets	11	**2,410,471**	—
Total Assets		**59,063,797**	103,581,802
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	12	**7,099,021**	6,038,478
Current portion of long term debt	13	**22,133,799**	—
Current portion of lease liabilities	11	**608,219**	—
Decommissioning liabilities	14	**264,450**	205,836
Total current liabilities		**30,105,489**	6,244,314
Other liabilities	15	**812,656**	4,225,734
Lease liabilities	11	**2,055,532**	—
Long term debt	13	**601,846**	23,063,945
Decommissioning liabilities	14	**1,819,949**	1,987,145
Total liabilities		**35,395,472**	35,521,138

Statement of Financial Position

As at December 31, 2019 (Expressed in Canadian dollars)

	Note	As at December 31, 2019 C$	As at December 31, 2018 C$
Shareholders' equity:			
Share capital	16	**210,366,683**	204,366,683
Warrants	16	**647,034**	647,034
Contributed surplus	16	**73,895**	—
Accumulated deficit		**(187,419,287)**	(136,953,053)
Total shareholders' equity		**23,668,325**	68,060,664
Total Liabilities and Shareholders' Equity		**59,063,797**	103,581,802

Going concern	3
Commitments	28
Subsequent events	30

The accompanying notes form part of these annual financial statements.

Approved on behalf of the Board

"*Yongtan Liu*"
Yongtan Liu, Director

"*Peter David Robertson*"
Peter David Robertson, Director

Statement of Loss and Comprehensive Loss

For the year ended December 31, 2019 (Expressed in Canadian dollars)

	Note	For the year ended December 31, 2019 C$	2018 C$
Revenue			
Oil and natural gas production	17	**13,626,747**	15,364,294
Royalties		**(2,446,729)**	(1,163,804)
Net revenue from oil and natural gas production		**11,180,018**	14,200,490
Net trading revenue from natural gas sales	17	**629,807**	661,458
Total net revenue		**11,809,825**	14,861,948
Expenses			
Operating costs		**(7,592,649)**	(5,353,764)
General and administrative costs		**(4,190,887)**	(5,584,534)
Depletion, depreciation and amortization	10, 11	**(5,165,339)**	(5,368,825)
Impairment losses and write-offs	18	**(41,142,293)**	(3,753,163)
Total expenses		**(58,091,168)**	(20,060,286)
Loss from operations		**(46,281,343)**	(5,198,338)
Other income	29	**77,967**	812,703
Finance expenses	22	**(4,262,858)**	(2,893,826)
Loss and comprehensive loss		**(50,466,234)**	(7,279,461)
Loss per share			
Basic and diluted	24	**(0.17)**	(0.03)

The accompanying notes form part of these annual financial statements.

Statement of Changes in Shareholders' Equity

For the year ended December 31, 2019 (Expressed in Canadian dollars)

	Note	Share Capital C$	Warrants C$	Contributed Surplus C$	Accumulated Deficit C$	Total Equity C$
Balance at January 1, 2019	16	204,366,683	647,034	—	(136,953,053)	68,060,664
Shares issued for cash		6,000,000	—	—	—	6,000,000
Contributed surplus		—	—	73,895	—	73,895
Loss for the year		—	—	—	(50,466,234)	(50,466,234)
Balance at December 31, 2019		**210,366,683**	**647,034**	**73,895**	**(187,419,287)**	**23,668,325**
Balance at January 1, 2018	16	204,366,683	—	—	(129,673,592)	74,693,091
Warrants issued for cash		—	647,034	—	—	647,034
Loss for the year		—	—	—	(7,279,461)	(7,279,461)
Balance 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, 2019 (Expressed in Canadian dollars)

	Note	For the year ended December 31, 2019 C$	2018 C$
Cash provided by (used in):			
Operations			
Net loss		**(50,466,234)**	(7,279,461)
Items not involving cash:			
Depletion, depreciation and amortization		**5,165,339**	5,368,825
Non-cash finance expenses		**3,789,954**	209,660
Unrealized foreign exchange (gain) loss		**17,928**	(12,624)
Impairment losses and write-offs		**41,142,293**	3,753,163
Funds from (used in) operations		**(350,720)**	2,039,563
Changes in non-cash working capital	7	**(1,047,119)**	1,474,482
Total cash from (used in) generated from operating activities		**(1,397,839)**	3,514,045
Investing			
Expenditures on property, plant and equipment, net		**836,516**	(79,683)
Expenditures on exploration and evaluation assets, net		**(3,477,201)**	(7,882,275)
Investments		**—**	3,333,500
Net cash used in investing activities		**(2,640,685)**	(4,628,458)
Financing			
Proceeds from shareholder loan	13	**675,000**	—
Proceeds from debt	13	**—**	18,730,281
Proceeds from warrants, net		**—**	647,034
Proceeds from share issuance	16	**6,000,000**	—
Repayment of bank loan	13	**(4,164,243)**	(18,033,000)
Net cash from financing activities		**2,510,757**	1,344,315
Increase (decrease) in cash and cash equivalents		**(1,527,767)**	229,902
Effect of exchange rate changes on cash and cash equivalents		**(17,190)**	12,624
Cash and cash equivalents, beginning of year		**2,605,709**	2,363,183
Cash and cash equivalents, end of year		**1,060,752**	2,605,709
Supplementary information:			
Interest paid		**154,727**	2,358,125

The accompanying notes form part of these annual financial statements.

Notes to the Financial Statements

For the year ended December 31, 2019
(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 Suite 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 ("**IFRS**"), 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, 2019. The new accounting standards adopted for the year ended December 31, 2019 are set out in Note 4.

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 (See Note 4(q)).

(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.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS 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.

2 BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgments (Continued)

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 5.

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 discharges its liabilities and commitments in the normal course of business.

3 GOING CONCERN

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. At December 31, 2019, the Company had a working capital deficiency of C$26.6 million (including C$22.1 million of term debt as discussed below), used cash in operating activities of C$1.4 million for the year ended December 31, 2019, and has drawn C$23.6 million on its subordinated debt facility of C$26.0 million as at December 31, 2019. Additional draws on the subordinated debt facility are subject to approval of the lender.

As at December 31, 2019, the Company was not in compliance with its net debt to total proved reserves covenant (refer to Note 13) and therefore the debt is due on demand. Accordingly, the outstanding debt balance including accrued interest in the total amount of C$22.1 million has been classified as a current liability as at December 31, 2019. Subsequent to December 31, 2019, the Company has received a waiver in respect of this covenant breach.

The Company was also not in compliance with certain covenants as at March 31, 2020, and on April 28, 2020, the Company and lender agreed to restructure the loan agreement (the "**Restructuring**"). Under the terms of the Restructuring, financial covenants in respect of working capital, net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13) have been waived for the remainder of 2020, and will be reinstated starting March 31, 2021. A new funding covenant has been added under which the Company must secure additional capital in the form of new equity and/or subordinate debt for a cumulative amount equal to or greater than C$2 million on or before June 30, 2020. There is also an instalment payment plan whereby the Company would be required to make monthly payments if the amount of the loan exceeds C$20 million after July 1, 2021, or if the loan exceeds C$15 million after January 1, 2022.

The global impact of COVID-19 has resulted in significant declines in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. In addition, there has been a significant drop in the price of oil in global and Canadian markets. These factors may have a negative impact on the Company's operations and its ability to raise financing to meet its funding covenant. If the Company is in breach of any covenants in future periods the lender will have the right to demand repayment of all amounts owed under the subordinated debt.

The Company's ability to continue as a going concern is dependent upon the ability to generate positive cash flow from operations, equity and/or debt financing, disposing of assets or other arrangements to fund future development capital and ongoing operations. There are no assurances that any transactions will be completed on terms acceptable to the Company. These conditions cause material uncertainty which casts significant doubt on the Company's ability to continue as a going concern.

3 GOING CONCERN (Continued)

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern assumption were not appropriate, then adjustments would be necessary in the carrying value of the Company's assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

4 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.

Trading revenue is realized when the Company purchases natural gas on the open market to meet its forward sale obligations. It is measured at the fair value of the consideration received or receivable, net of the costs incurred to purchase the natural gas.

(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 financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability.

4 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.

- Lease arrangements
  The Company applies judgement when reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Contractual arrangements containing a lease are then subject to various areas of judgement including the lease term and discount rate.

4 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.

4 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 as determined annually by independent reservoir engineers using future prices and costs using a pre-tax discount rate; 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 as determined annually by independent reservoir engineers using future prices and costs using a pre-tax discount rate;

(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.

(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.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Depletion and depreciation (Continued)

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

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

(j) Decommissioning liability

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

(k) Share capital

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

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

(l) Income taxes

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

Current income taxes payable are based on taxable earnings for the year. Taxable earnings differs from profit before income taxes as reported in the 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.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income taxes (Continued)

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

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

(m) Related party transactions

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

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

(ii) has significant influence over the Company; or

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

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

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

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

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

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

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

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

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

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

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.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(p) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to new and existing contracts as at or after January 1, 2019.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant, and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the minimum lease payments that are not yet paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate for that asset. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leased assets that have a lease term of 12 months or less and leases of low-value assets defined as leases with an annual obligation of C$5,000 or less. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New accounting policies adopted

IFRS 16 — Leases

In January 2016, the IASB issued IFRS 16 Leases ("**IFRS 16**"), which replaces the existing IFRS guidance on leases: IAS 17 Leases ("**IAS 17**"). Under IAS 17, lessees were required to determine if the lease is a finance or operating lease, based on specified criteria of whether the lease transferred significantly all the risks and rewards associated with ownership of the underlying asset. Finance leases are recognized on the statement of financial position while operating leases are recognized in the statement of loss and comprehensive loss when the expense is incurred. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for most lease contracts. The recognition of the present value of minimum lease payments for certain contracts previously classified as operating leases resulted in increases to assets, liabilities, depletion, depreciation and amortization, finance expenses, decreases to production, operating and transportation expenses and general and administrative expenses.

The Company has adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening deficit and applies the standard prospectively. Accordingly, comparative information in the Company's financial statements are not restated.

On adoption, lease liabilities were measured at the present value of the remaining lease payments discounted using the Company's incremental borrowing rate on January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability. For leases previously classified as operating leases, the Company applied the exemption not to recognize right-of-use assets and liabilities for leases with a lease term of less than 12 months, leases of low-value assets defined as leases with an annual obligation of C$5,000 or less, and excluded initial direct costs from measuring the right-of-use asset at the date of initial application, and applied a single discount rate to a portfolio of leases with similar characteristics. On adoption, and as at December 31, 2019, the Company held no leases that were previously classified as finance leases under IAS 17, or leases where the Company was a lessor.

Financial Statement Impact

The recognition of the present value of minimum lease payments resulted in an additional C$3.05 million of right-of-use assets and associated lease liabilities at January 1, 2019. The Company has recognized lease liabilities in relation to lease arrangements previously disclosed as operating lease commitments under IAS 17 that meet the criteria of a lease under IFRS 16. Upon recognition, the Company's weighted average incremental borrowing rate used in measuring lease liabilities was 8.4%. The nature of the Company's leasing activities includes equipment for the use of producing reserves from its oil and gas properties and office space. Refer to Note 11 for the values recognized upon implementation in each asset class.

5 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.

5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

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

The Company'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 the Company to assess, at each reporting date, whether there are any indicators that its assets may be impaired. The Company 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, 2019 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.

5 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, environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, 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, 2019 of C$26.6 million and incurred a loss for the year ended December 31, 2019 of C$50.5 million. As at December 31, 2019 the Company has total long term debt of C$22.7 million, of which C$22.1 million is classified as current (and included in the working capital deficiency above) as the Company was not in compliance with its net debt to total proved reserves covenant (refer to Note 3 and 13).

The Company was also not in compliance with certain covenants as at March 31, 2020, and on April 28, 2020, the Company and lender agreed to restructure the loan agreement (see Note 3). Under the terms of the Restructuring, financial covenants in respect of working capital, net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13) have been removed until March 31, 2021. A new funding covenant has been added under which the Company must secure additional capital in the form of new equity and/or subordinate debt for a cumulative amount equal to or greater than C$2 million on or before June 30, 2020.

5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Key sources of estimation uncertainty (Continued)

(iv) Liquidity (Continued)

The global impact of COVID-19 has resulted in significant declines in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. In addition, there has been a significant drop in the price of oil in global and Canadian markets. These factors may have a negative impact on the Company's operations and certainty that the Company will be successful in securing the additional capital to meet its funding covenant.

(v) Taxes

The Company 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, 2019 and 2018, the Company has not recorded any deferred tax assets due to the uncertainty of future taxable profits.

(vi) Lease arrangements

The Company applies judgement when reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Contractual arrangements containing a lease are then subject to various areas of judgement including the lease term and discount rate.

6 DETERMINATION OF FAIR VALUE

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

(a) Cash and cash equivalents, accounts receivable, deposits, accounts payable, accrued liabilities and shareholder loans

The fair value of cash and cash equivalents, accounts receivable, deposits and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2019, the fair value of these balances approximated their carrying value due to their short term to maturity. At December 31, 2019, the fair value of the Company's shareholder loan was C$73,895 lower than its face value, the difference was credited to contributed surplus as per Notes 13 and 16.

(Expressed in Canadian dollars unless otherwise indicated)

6 DETERMINATION OF FAIR VALUE (Continued)

(b) Loans

As at December 31, 2019, the fair value of the Company's subordinated debt approximates its carrying value.

(c) Financial derivative instruments

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

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

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

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

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

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

Bank loans and shareholder loan:	Level 2
Other liabilities:	Level 3

During the year ended December 31, 2019, there were no transfers between Level 1, Level 2 and Level 3 classified assets and liabilities.

7 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	As at December 31, 2019 C$	As at December 31, 2018 C$
Deposits with banks and other financial institutions	**1,054,708**	2,600,382
Cash on hand	**6,044**	5,327
Cash and cash equivalents in the statement of financial position and statement of cash flows	**1,060,752**	2,605,709

(Expressed in Canadian dollars unless otherwise indicated)

7 CASH AND CASH EQUIVALENTS (Continued)

(b) Supplementary cash flows information

	Year ended December 31,	
	2019	2018
	C$	C$
Change in non-cash working capital:		
Accounts receivable	**593,921**	(617,930)
Prepaid expenses and deposits	**(188,353)**	(73,542)
Accounts payable and accrued liabilities	**2,352,535**	1,764,669
Lease liabilities	**390,114**	—
	3,148,217	1,073,197
Change in non-cash working capital included in investing and financing activities	**(4,195,336)**	401,285
Change in non-cash working capital included in operating activities	**(1,047,119)**	1,474,482

8 ACCOUNTS RECEIVABLE

	As at December 31, 2019 C$	As at December 31, 2018 C$
Trade receivables	**1,716,964**	1,196,062
Other receivables	**73,019**	—
Total	**1,789,983**	1,196,062

(Expressed in Canadian dollars unless otherwise indicated)

8 ACCOUNTS RECEIVABLE (Continued)

(a) Aging analysis of trade receivables

As at December 31, 2019 and 2018, 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, 2019 C$	As at December 31, 2018 C$
Within 1 month	**1,716,964**	1,196,062
1 to 3 months	**—**	—
Over 3 months	**—**	—
Total	**1,716,964**	1,196,062

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, 2019 and 2018.

9 EXPLORATION AND EVALUATION ("E&E") ASSETS

	As at December 31, 2019 C$	As at December 31, 2018 C$
Balance, beginning of year	**43,484,822**	40,065,106
Additions	**1,278,860**	5,210,599
Cost recovery	**(298,659)**	—
Write-offs	**(623,720)**	(1,790,883)
Impairment (Note 18)	**(25,297,313)**	—
Balance, end of year	**18,543,990**	43,484,822

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.

9 EXPLORATION AND EVALUATION ("E&E") ASSETS (Continued)

During the year ended December 31, 2019, the Company's E&E expenditures were primarily incurred for the development of Voyager. During the year ended December 31, 2018, the Company completed one well at Voyager and incurred E&E costs totaling C$5.2 million. Included in E&E additions are G&A costs of C$0.35 million (2018: C$0.52 million) which were capitalized as they were directly attributable to exploration and development activities.

On May 9, 2019, the Company announced it entered into a gas handling agreement with Jixing Energy (Canada) Ltd. ("**Jixing**") whereby the Company will transport its natural gas and associated products through Jixing's Voyager gas gathering system and pipeline. Pursuant to the agreement, past costs incurred by the Company in respect of the Voyager gas gathering system and pipeline project have been repaid by Jixing. As at December 31, 2019, a total of C$1.3 million of past costs, comprised of C$0.3 million in E&E and C$1.0 million in PP&E has been received from Jixing.

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.

At December 31, 2019, the Company has identified indicators of impairment in its E&E assets from its Voyager CGU attributable to declines in natural gas and natural gas liquids prices. The Company calculated the recoverable amount of the Voyager CGU based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate. Based on the assessment as at December 31, 2019, the carrying amount of both the Company's Voyager CGU was higher than the recoverable amount of C$12.5 million. As such the Company has recognized an impairment loss of C$25.3 million (2018: C$nil). Refer to Note 18 for additional disclosures.

For the year ended December 31, 2019, the Company wrote-off C$0.62 million (2018: C$1.79 million) of E&E assets attributable to land lease expiries.

(Expressed in Canadian dollars unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT

	Cost C$	Accumulated Depletion, Depreciation and Impairment C$	Net Book Value C$
Balance, January 1, 2018	152,627,692	(89,982,395)	62,645,297
Additions	203,679	—	203,679
Change in decommissioning obligations (Note 14)	(19,405)	—	(19,405)
Depletion and depreciation	—	(5,368,826)	(5,368,826)
Impairment (Note 18)	—	(1,962,280)	(1,962,280)
Balance, December 31, 2018	152,811,966	(97,313,501)	55,498,465
Balance, January 1, 2019	**152,811,966**	**(97,313,501)**	**55,498,465**
Additions	**35,856**	**—**	**35,856**
Change in decommissioning obligations (Note 14)	**(141,736)**	**—**	**(141,736)**
Cost recovery	**(999,170)**	**—**	**(999,170)**
Depletion and depreciation	**—**	**(4,521,945)**	**(4,521,945)**
Impairment (Note 18)	**—**	**(15,221,260)**	**(15,221,260)**
Balance, December 31, 2019	**151,706,916**	**(117,056,706)**	**34,650,210**

Substantially all of PP&E consists of development and production assets. Included in PP&E additions for the year ended December 31, 2019 are general and administration ("**G&A**") costs of nil (2018: C$13,432) which were capitalized as they were directly attributable to exploration and development activities. Pursuant to the Jixing agreement (as described in Note 9), past costs incurred by the Company in respect of the Voyager gas gathering system and pipeline project have been repaid by Jixing. As at December 31, 2019, a total of C$1.3 million of past costs, comprised of C$0.3 million in E&E and C$1.0 million in PP&E has been received from Jixing.

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, 2019 includes estimated future development costs of C$6.02 million (2018: C$24.5 million) associated with the development of the Company's proved plus probable reserves.

During the year ended December 31, 2019, the Company identified indicators of impairment in its PP&E assets in the Basing and Dawson CGU's attributable to declines in natural gas and oil prices. The Company calculated the recoverable amount of the Basing and Dawson CGU's based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate. Based on the assessment, the carrying amount of the Company's Basing CGU was higher than its recoverable amount of C$32.8 million. As such, the Company recognized an impairment loss of C$15.2 million (2018: C$1.96 million) for this CGU during the year ended December 31, 2019. Based on the assessment, the carrying amount of the Dawson CGU was lower than its recoverable amount of C$2.6 million, and no impairment loss was recognized. Refer to Note 18 for additional disclosures.

(Expressed in Canadian dollars unless otherwise indicated)

11 RIGHT OF USE ASSETS AND LEASES

(a) Right of use assets

	Oil and Gas Production C$	Office Space C$	Total C$
On January 1, 2019			
Initial recognition	338,418	2,715,447	3,053,865
Amortization	(203,051)	(440,343)	(643,394)
Balance, December 31, 2019	**135,367**	**2,275,104**	**2,410,471**

(b) Leases

	As at December 31, 2019 C$
Statement of Financial Position	
Current lease liabilities	**608,219**
Long term lease liabilities	**2,055,532**
Total lease liabilities	**2,663,751**
Reconciliation to Operating Lease Commitments	
Operating leases included in commitments as at December 31, 2018	**3,884,060**
Discounting	**(830,195)**
Additional lease liability recognized due to adoption of IFRS 16 on January 1, 2019	**3,053,865**

	Year ended December 31, 2019 C$
Results of Operations	
Interest expense on lease liabilities	**257,846**
Cash Flow Summary	
Total cash flow used for leases	**647,960**

(Expressed in Canadian dollars unless otherwise indicated)

12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2019 C$	As at December 31, 2018 C$
Trade payables	**770,398**	651,209
Accrued liabilities	**1,534,885**	1,432,903
Total trade payables and accrued liabilities	**2,305,283**	2,084,113
Accrued compensation per Phantom Unit Plan[1]	**—**	373,642
Capital payables (Note 15)	**4,408,190**	3,095,029
Other payables	**385,548**	485,694
Total	**7,099,021**	6,038,478

(1) In December 2019, the directors agreed that upon ceasing to be a member of the Board the cash redemption value of their Phantom Units would be paid by the Company not less than 366 days after the Director Termination Date. As at December 31, 2019 the Phantom Unit Plan amounts owing are held as other liabilities (Note 15). In prior years, the cash redemption value of the Phantom Units was due on the Director Termination Date. Refer to Note 19 for additional disclosures in respect of the Phantom Unit Plan.

All trade payables, accrued liabilities, capital payables and other payables are expected to be settled within one year or are payable on demand. For the years ended December 31, 2019 and 2018, capital payables are primarily comprised of costs incurred pursuant to the Contract (as defined below). For the years ended December 31, 2019 and 2018, other payables are primarily comprised of office renovation and rent inducement expenditures.

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. For the year ended December 31, 2019, the Company accrued approximately C$0.26 million of interest (2018: C$nil) in respect of the Contract. 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.

Aging analysis of trade payables and accrued liabilities

As at December 31, 2019 and December 31, 2018, the aging analysis of trade payables and accrued liabilities based on dates of invoices at the end of the reporting period is as follows:

	As at December 31, 2019 C$	As at December 31, 2018 C$
Within 1 month	**1,714,784**	1,534,348
1 to 3 months	**590,499**	402,865
Over 3 months but within 6 months	**—**	146,899
Total	**2,305,283**	2,084,113

(Expressed in Canadian dollars unless otherwise indicated)

13 LONG TERM DEBT

	As at December 31, 2019 C$	As at December 31, 2018 C$
Bank loan	**—**	4,164,243
Shareholder loan (net)	**601,846**	—
Subordinated debt	**21,000,000**	20,000,000
Accrued and unpaid interest on subordinated debt	**2,578,600**	—
Less: deferred financing costs	**(1,444,801)**	(1,100,298)
Balance, end of year	**22,735,645**	23,063,945
Current	**22,133,799**	—
Long term	**601,846**	23,063,945

(a) Bank loan

On May 15, 2019, the Company repaid the bank loan and closed the Bank Facility.

The maximum debt available under the Bank Facility was C$100 million, maturing 36 months from closing on September 22, 2020, and was subject to a semi-annual review of the borrowing base by the Lender. The initial Bank Facility draw was capped at C$24 million, and reduced to C$18.5 million during 2018. With the closing of the SubDebt (as defined below), the Bank Facility was capped at C$10 million until the Company repaid the SubDebt in full. Pursuant to the terms of the Second Amending Agreement to the SubDebt Agreement, if the bank loan was not paid in full on or prior to January 1, 2020, the SubDebt would be in deficit and due upon demand.

The Bank Facility carried 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 Bank Facility was 5.7%.

The Bank Facility was 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 Bank Facility was 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 Bank 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).

13 LONG TERM DEBT (Continued)

(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. In connection with the SubDebt, the Company sold 8 million share purchase warrants to the SubLender for C$0.75 million. The Company completed an initial draw of C$20.0 million from the SubDebt at closing.

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 of 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 capital payables (Note 12). 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.

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 increased to C$26 million. As such, no cash cost was incurred in respect of the fee in 2019. In total, C$1.25 million in costs were incurred in relation to the SubDebt and paid to the SubLender. These costs have been capitalised in long term debt, and amortised over the maturity of the SubDebt.

13 LONG TERM DEBT (Continued)

(b) Subordinated debt (Continued)

In June 2019, the Company and SubLender further amended the SubDebt agreement (the "**Third Amending Agreement**"). The Third Amending Agreement extended the deferral period for monthly interest payments to October 1, 2019. In September 2019, the Company and SubLender further amended the SubDebt agreement (the "**Fourth Amending Agreement**"). The Fourth Amending Agreement extended the deferral period for monthly interest payments to December 31, 2019. No additional fees were incurred in respect of the Third and Fourth Amending Agreements.

As at December 31, 2019, the Company was not in compliance with its net debt to total proved reserves covenant and therefore the debt is due on demand. Accordingly, the loans payable have been classified as a current liability as at December 31, 2019. Subsequent to December 31, 2019, the Company has received a waiver in respect of this covenant breach (see Note 3).

The Company was also not in compliance with certain covenants as at March 31, 2020, and on April 28, 2020, the Company and lender agreed to restructure the loan agreement (the "**Restructuring**"). Under the terms of the Restructuring, financial covenants in respect of working capital, net debt to total proved reserves and net debt to TTM EBITDA have been waived for the remainder of 2020, and will be reinstated March 31, 2021. A new funding covenant has been added under which the Company must secure additional capital in the form of new equity and/or subordinate debt for a cumulative amount equal to or greater than C$2 million on or before June 30, 2020.

Pursuant to the Restructuring, starting April 1, 2020 the Company will incur an additional 2% per annum interest charge, which is due until the TTM EBITDA ratio is below 3.0 (the "**PIK Interest**"). PIK Interest fees will be paid-in-kind, with the fee being added to the principal of the loan on a monthly basis. The PIK Interest does not create any incremental cash obligations until the loan balance is repaid. A further 2% per annum additional interest is also due effective April 1, 2020 (the "**Penalty Interest**"). The Penalty Interest is to be paid in cash monthly, and is due while the balance of the loan exceeds C$20 million.

There is also an instalment payment plan whereby the Company would be required to make monthly payments if the amount of the loan exceeds C$20 million after July 1, 2021, or if the loan exceeds C$15 million after January 1, 2022.

The global impact of COVID-19 has resulted in significant declines in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. In addition, there has been a significant drop in the price of oil in global and Canadian markets. These factors may have a negative impact on the Company's operations and its ability to raise financing to meet its funding covenant. If the Company is in breach of any covenants in future periods the lender will have the right to demand repayment of all amounts owed under the subordinated debt.

(c) Shareholder loan

On December 23, 2019, Jixing advanced C$0.675 million to the Company (the "**Shareholder Loan**"). The full proceeds of the Shareholder Loan were applied to amounts due in respect of the Contract (refer to Note 12). The Shareholder Loan has a term of two years, is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company's sole discretion. In calculating the fair value of the Shareholder Loan, the Company applied an effective interest rate on the same terms as the Bank Facility (4% plus one month Canadian Dealer Offered Rate), over the term of the Shareholder Loan. As at December 23, 2019 the effective rate was 5.97%, comprised of 4% plus 1.97% CDOR. The residual of C$73,895 was recorded to Contributed Surplus (refer to Note 16).

(Expressed in Canadian dollars unless otherwise indicated)

14 DECOMMISSIONING LIABILITIES

	As at December 31, 2019 C$	As at December 31, 2018 C$
Balance, beginning of year	**2,192,981**	2,172,148
Change in estimate	**(141,736)**	(19,405)
Accretion expense (Note 22)	**33,154**	40,238
Balance, end of year	**2,084,399**	2,192,981
Current	**264,450**	205,836
Long term	**1,819,949**	1,987,145

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, 2019, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations to be approximately C$2.5 million which will be incurred between 2020 and 2067. The majority of these costs will be incurred by 2037. As at December 31, 2019, an average risk free rate of 1.76% (2018: 2.04%) and an inflation rate of 1.35% (2018: 2%) were used to calculate the decommissioning obligations.

15 OTHER LIABILITIES

	As at December 31, 2019 C$	As at December 31, 2018 C$
Accrued compensation per Phantom Unit Plan[1]	**216,955**	—
Capital payables	**191,674**	4,039,041
Other payables	**404,027**	186,693
Total	**812,656**	4,225,734

(1) In December 2019, the directors agreed that upon ceasing to be a member of the Board the cash redemption value of their Phantom Units would be paid by the Company not less than 366 days after the Director Termination Date. As at December 31, 2019 the Phantom Unit Plan amounts owing are held as other liabilities. In prior years, the cash redemption value of the Phantom Units was due on the Director Termination Date. Refer to Note 19 for additional disclosures in respect of the Phantom Unit Plan.

As described in Note 12, the Company has completed one well per the Contract, incurring total capital expenditures of C$8.0 million. As at December 31, 2019, the Company has C$4.6 million outstanding under the Contract, C$4.4 million is due within 12 months and is held as current, and the remaining C$0.2 million is due after 12 months and is held as other liabilities. For the year ended December 31, 2019, the Company accrued approximately C$0.26 million of interest (2018: C$nil) in respect of the Contract.

For the years ended December 31, 2019 and 2018, other payables are primarily comprised of office renovation and rent inducement expenditures.

(Expressed in Canadian dollars unless otherwise indicated)

16 SHARE CAPITAL

(a) Authorized:

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

(b) Issued:

	Common Shares	Amount C$
Balance at January 1, 2018 and December 31, 2018	278,286,520	204,366,683
Shares issued for cash	23,600,000	6,000,000
Balance at December 31, 2019	**301,886,520**	**210,366,683**

On May 14, 2019, the Company completed a private placement issuing 23.6 million shares at a price of HK$1.50 per share (approximately C$0.25 per share) for gross proceeds of HK$35.4 million (C$6.0 million).

(c) Warrants:

On August 13, 2018, the Company issued 8.0 million warrants to the SubLender for total consideration of C$0.75 million. 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$0.75 million 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. Costs of C$0.1 million were incurred for the sale of the warrants.

(d) Contributed surplus:

As at December 31, 2019, contributed surplus is comprised of the difference between the deemed fair value and gross value of the C$0.675 million Shareholder Loan (refer to Note 13). The fair value difference of C$73,895 assumed an effective interest rate on the same terms as the Bank Loan (4% plus one month Canadian Dealer Offered Rate), over the term of the Shareholder Loan. As at December 23, 2019 the effective rate was 5.97%, comprised of 4% plus 1.97% CDOR.

(Expressed in Canadian dollars unless otherwise indicated)

17 REVENUE

	Year ended December 31, 2019 C$	2018 C$
Production revenue		
Natural gas, natural gas liquids and condensate	**11,714,035**	13,549,538
Crude oil	**1,912,712**	1,814,756
Total production revenue	**13,626,747**	15,364,294
Trading revenue		
Natural gas revenue	**1,039,043**	1,070,898
Natural gas cost	**(409,236)**	(409,440)
Net trading revenue	**629,807**	661,458

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.

For the year ended December 31, 2019, the Company's customer base includes two customers (2018: two customers), with whom transactions have exceeded 10% of the Company's revenues. For the year ended December 31, 2019, revenues from sales to these customers amounted to C$12.6 million (2018: C$13.9 million).

Trading revenue is realized when the Company purchases natural gas on the open market to meet its forward sale obligations. It is measured at the fair value of the consideration received or receivable, net of the costs incurred to purchase the natural gas.

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.

(Expressed in Canadian dollars unless otherwise indicated)

18 IMPAIRMENT LOSS (Continued)

PP&E Impairment

For the year ended December 31, 2019, the Company identified indicators of impairment in its PP&E assets in the Basing and Dawson CGU's attributable to declines in natural gas, natural gas liquids and oil prices. The Company calculated the recoverable amount of the Basing and Dawson CGU's based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate. Based on the assessment, the carrying amount of the Basing CGU was higher than its recoverable amount of C$32.8 million. As such, the Company recognized an impairment loss of C$15.2 million (2018: C$1.96 million) for this CGU during the year ended December 31, 2019. The carrying amount of the Dawson CGU was lower than its recoverable amount of C$2.6 million, and no impairment loss was recognized.

E&E Impairment

At December 31, 2019, the Company has identified indicators of impairment in its E&E assets from its Voyager CGU attributable to declines in natural gas and natural gas liquids prices. The Company calculated the recoverable amount of the Voyager CGU based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate. Based on the assessment as at December 31, 2019, the carrying amount of the Company's Voyager CGU was higher than the recoverable amount of C$12.5 million, as such the Company has recognized an impairment loss of C$25.3 million (2018: C$nil).

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 before-tax discount rate at 12 percent was used, with escalated prices and future development costs, as obtained from the independent reserve report.

The Company utilized the following benchmark prices to determine the forecast prices in the value in use calculations:

	As at December 31,			
	2019		2018	
	Edmonton Oil (C$/Bbl)	**AECO Gas (C$/mmbtu)**	Edmonton Oil (C$/Bbl)	AECO Gas (C$/mmbtu)
2019	**—**	**—**	63.33	1.85
2020	**71.71**	**2.10**	75.32	2.29
2021	**74.03**	**2.35**	79.75	2.67
2022	**76.92**	**2.55**	81.48	2.90
2023	**80.13**	**2.65**	83.54	3.14
2024	**82.69**	**2.75**	86.06	3.23
2025	**85.26**	**2.58**	89.09	3.34
2026	**87.82**	**2.91**	92.62	3.41
2027	**90.14**	**2.97**	94.57	3.48
2028	**92.09**	**3.03**	96.56	3.54
2029(1)	**94.08**	**3.09**	+2.0%/yr	+2.0%/yr
2030(1)	**+2.0%/yr**	**+2.0%/yr**		

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

(Expressed in Canadian dollars unless otherwise indicated)

19 PERSONNEL COSTS, REMUNERATION POLICY AND AUDITORS' REMUNERATION

	Year ended December 31,	
	2019	2018
	C$	C$
Salaries, wages and other benefits	**1,582,959**	2,167,774
Retirement benefits contribution	**28,641**	33,392
Total	**1,611,600**	2,201,166

The Company's remuneration and bonus policies are determined by the performance of individual employees. 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, all independent non-executive directors agreed to receive 60% of their C$100,000 annual fee ("**Independent Directors' Fee**") in the form of phantom units, and the remainder in cash. For the years ended December 31, 2019 and 2018, the Independent Directors Fee was paid quarterly as C$10,000 in cash and C$15,000 under the Phantom Unit Plan (the "**Phantom Fee**"), with each independent non-executive director annually receiving C$40,000 in cash and C$60,000 in Phantom Units.

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, 2019, 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, 2019, the Company recovered C$0.16 million (2018: expense of C$0.11 million) of directors' compensation per the Phantom Unit Plan. The recovery in 2019 is a result of the decrease in the trading price of the Company's common shares during the year. As at December 31, 2019, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$0.22 million (2018: C$0.37 million).

In December 2019, the directors agreed that upon ceasing to be a member of the Board (the "**Director Termination Date**"), the cash redemption value of their Phantom Units is calculated as the number of units redeemed multiplied by the trading price of the Company's shares at the Director Termination Date. The directors agreed that this value would be paid by the Company not less than 366 days after the Director Termination Date. In prior years, the cash redemption value of the Phantom Units was due on the Director Termination Date.

(Expressed in Canadian dollars unless otherwise indicated)

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

Auditors' remuneration

Auditors' remuneration incurred during the years ended December 31, 2019 and 2018 is as follows:

	Year ended December 31,	
	2019	2018
	C$	C$
Audit Services	**181,500**	174,525
Non-Audit Services[1]	**25,512**	61,619

(1) Non-Audit Services are primarily comprised of tax services.

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, 2019:

	Directors' Fees (Recovery) C$	Salaries, allowances and benefits in kind C$	Discretionary bonuses C$	Retirement scheme contributions C$	Share-based payments C$	Total Emoluments (Recovery) C$
Executive directors						
Le Bo[1]	—	426,667	—	—	—	426,667
Yongtan Liu[1]	—	—	—	—	—	—
Non-executive director						
Yuan Jing[2]	—	—	—	—	—	—
Independent non-executive directors						
Richard Dale Orman[3]	(12,229)	—	—	—	—	(12,229)
Bryan Daniel Pinney[3]	(12,229)	—	—	—	—	(12,229)
Peter David Robertson[3]	(12,229)	—	—	—	—	(12,229)
Total	**(36,687)**	**426,667**	**—**	**—**	**—**	**389,980**

(1) On December 18, 2019, Le Bo ceased to be a director of the Company. On the same date Yongtan Liu was appointed executive director and Chairman of the Company. Refer to Note 26(b) for additional disclosures in respect of transactions with Mr. Liu and affiliated entities.

(2) Yuan Jing does not receive any emoluments from the Company for his services.

(Expressed in Canadian dollars unless otherwise indicated)

20 DIRECTORS' EMOLUMENTS (Continued)

Year Ended December 31, 2019: (Continued)

(2) Each of the independent non-executive director's compensation is C$100,000 per year, C$40,000 paid in cash quarterly (C$10,000 per quarter), and C$60,000 paid in Phantom Units quarterly (C$15,000 per quarter). The directors' fees reflect the adjustment for the fair value of the Phantom Unit component as described in Note 19. During the year ended December 31, 2019, the Company recovered C$0.16 million of directors' compensation per the Phantom Unit Plan (as a result of the decrease in the trading price of the Company's common shares). The recovery was reduced by the C$0.12 million of cash compensation paid during the year, for a net recovery of C$0.037 million for the year ended December 31, 2019.

For the year ended December 31, 2019, 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, 2019.

Year Ended December 31, 2018:

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

(1) Yuan Jing does not receive any emoluments from the Company for his services.

(2) Each of the independent 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 as described in Note 19.

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.

(Expressed in Canadian dollars unless otherwise indicated)

21 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one of them was a director (Le Bo) during both of the years ended December 31, 2019 and 2018, 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,	
	2019	2018
	C$	C$
Salaries and other emoluments	**985,413**	994,385
Bonus	**—**	74,000
Retirement scheme contributions	**—**	12,969
Total	**985,413**	1,081,354

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

	Year ended December 31,	
	2019	2018
	Number of individuals	Number of individuals
Hong Kong dollars		
Nil–1,000,000	**—**	—
1,000,001–1,500,000	**3**	4
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,	
	2019	2018
	C$	C$
Interest expense and financing costs:		
Subordinated debt and bank loans (Note 13)	**3,186,916**	2,696,790
Right of use assets and leases (Note 11)	**257,846**	—
Capital payables (Note 12)	**264,850**	—
Amortization of debt issuance costs	**502,163**	169,422
Loss (gain) on foreign exchange	**17,928**	(12,624)
Accretion expense (Note 14)	**33,154**	40,238
Total	**4,262,858**	2,893,826

(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,	
	2019	2018
	C$	C$
Loss before income taxes	**(50,466,234)**	(7,279,461)
Combined Federal and Provincial tax rate	**26.5%**	27%
Expected tax benefit	**(13,373,552)**	(1,965,454)
Increase/(decrease) in taxes resulting from:		
Non deductible expenses	**7,442**	2,246
Change in unrecognized deferred tax assets	**9,801,114**	1,958,423
Change in enacted tax rate and others	**3,564,996**	4,785
Income tax expense	**—**	—

During the year ended December 31, 2019, the blended statutory tax rate was 26.5% (2018: 27%). In the second quarter of 2019, the Alberta corporate income tax rate was reduced from 12 percent to eight percent over a four year period. The rate was reduced from 12% to 11% effective July 1, 2019 and will be further reduced by 1% on January 1 for each of the next three years until it reaches 8% on January 1, 2022.

Deferred tax assets have not been recognised for the following deductible temporary differences:

	Year ended December 31,	
	2019	2018
	C$	C$
PP&E and E&E assets	**65,185,062**	26,807,270
Decommissioning obligations	**2,084,398**	2,192,981
Non-capital losses and other	**25,126,686**	13,954,608
Lease liabilities	**2,663,751**	—
Share issue costs	**2,955,635**	4,554,047
Total	**98,015,532**	47,508,906

At December 31, 2019, the Company has approximately C$149 million of tax deductions, which include loss carry forwards of approximately C$24 million that will begin to expire in 2037.

Inquiries from regulatory bodies may also arise in the normal course of business, to which the Company responds as required. There can be no assurance that any particular claim will be resolved in the Company's favour or that such claims may not have a material adverse effect on Persta. In June 2019 the Company received a Notice of Collection ("**NOC**") from the Canada Revenue Agency ("**CRA**"). The NOC stated that there was a balance owing to the CRA of approximately C$7.8 million for non-resident Withholding Taxes ("**WHT**") resulting from common shares issued to settle approximately C$56.2 million of debt held by a foreign company controlled by a Persta director who is not a resident of Canada.

(Expressed in Canadian dollars unless otherwise indicated)

23 INCOME TAXES (Continued)

In August 2019, the Company filed a Notice of Objection ("**NOO**") in respect of this matter which was accepted by the CRA on September 2, 2019, initiating an administrative appeals process where the CRA reviewed the evidence the Company had provided in support of its position that the NOC was issued in error and no WHT were due in respect of the debt settlement.

On February 3, 2020, the Company received written confirmation that the CRA was vacating its previous assessment and eliminating all assessed withholding tax and associated interest and penalties relating to the debt settlement. As it was the Company's view that the NOO would be successful, provision was not previously recorded in the Company's financial statements. Therefore, there was no impact to the financial statements relating to this matter for the year ended December 31, 2019.

24 LOSS PER SHARE

	Year ended December 31,	
	2019	2018
C$ except share amounts		
Loss and comprehensive loss	**(50,466,234)**	(7,279,461)
Weighted average number of common shares	**293,263,443**	278,286,520
Loss per share — basic and diluted	**(0.17)**	(0.03)

There are 8.0 million warrants excluded from the weighted-average share calculations for the years ended December 31, 2019 and 2018 because they were anti-dilutive.

25 DIVIDEND

The Board did not recommend the payment of a dividend for the years ended December 31, 2019 and 2018.

26 RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

Key management compensation for the year ended December 31, 2019 totaled C$1,557,944 (2018: C$1,589,949).

(Expressed in Canadian dollars unless otherwise indicated)

26 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with directors

Directors' Fees and Phantom Unit Plan

Each of the non-executive director's compensation is C$100,000 per year, C$40,000 paid in cash quarterly (C$10,000 per quarter), and C$60,000 paid in Phantom Units quarterly (C$15,000 per quarter). The directors' fees reflect the adjustment for the fair value of the Phantom Unit component as described in Note 19. During the year ended December 31, 2019, the Company recovered C$0.16 million of directors' compensation per the Phantom Unit Plan (as a result of the decrease in the trading price of the Company's common shares). The recovery was reduced by the C$0.12 million of cash compensation paid during the year, for a net recovery of C$0.037 million for the year ended December 31, 2019. As at December 31, 2019, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$0.22 million (2018: C$0.37 million).

Jixing Gas Handling and Voyager Compression Agreements

On May 9, 2019, the Company entered into a gas handling agreement with Jixing Energy (Canada) Ltd. ("**Jixing**") (collectively the "**Jixing Gas Handling Agreement**"). Jixing is a private Canadian company controlled by Yongtan Liu, who was appointed as director and Chairman of the Company on December 18, 2019. Under the terms of the Jixing Gas Handling Agreement, the Company will transport its gas from the Voyager area through Jixing's gas gathering system. The agreement has a term of May 9, 2019 to December 31, 2044, however the Company's obligation to transport its gas will commence only after Jixing's gas handling system is completed and commissioned. As of the date of these financial statements, the Company forecasts Voyager gas production will commence late in the second quarter of 2020.

On November 1, 2019, the Company and Jixing entered into a gas compression agreement (the "**Jixing Voyager Compression Agreement**"). The agreement has a term of November 1, 2019 to December 31, 2026, however the Company's obligations will commence only after Jixing's gas compression system is completed and commissioned. As of the date of these financial statements, the Company believes Voyager gas production will commence in 2020.

Under the terms of the Jixing Gas Handling and Jixing Voyager Compression Agreements, upon commencement of Voyager gas production, the Company will pay the following tariffs to Jixing:

	Monthly Gas Handling C$	Monthly Compression C$	Total Monthly C$	Total Annual C$
2020	361,000	146,000	507,000	6,084,000
2021	441,000	146,000	587,000	7,044,000
2022	474,000	146,000	620,000	7,440,000
2023	551,000	146,000	697,000	8,364,000
2024	648,000	146,000	794,000	9,528,000
2025	764,000	146,000	910,000	10,920,000
2026	912,000	146,000	1,058,000	12,696,000
2027–2044	433,000	—	433,000	5,196,000

Prior to December 18, 2019, Jixing was not a related party to the Company, the terms of the agreements were determined through arm's length negotiations, giving reference to the prevailing market rates quoted on normal commercial terms by providers of similar services in the same or nearby geographical regions.

26 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with directors (Continued)

Shareholder Loan

On December 23, 2019, Jixing advanced C$0.675 million to the Company (the "**Shareholder Loan**"). The full proceeds of the Shareholder Loan were applied to amounts due in respect of the Contract (refer to Note 12). The Shareholder Loan has a term of two years, is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company's sole discretion. In calculating the fair value of the Shareholder Loan, the Company applied an effective interest rate on the same terms as the Bank Loan (4% plus one month Canadian Dealer Offered Rate), over the term of the Shareholder Loan. As at December 23, 2019 the effective rate was 5.97%, comprised of 4% plus 1.97% CDOR. The residual of C$73,895 was recorded to Contributed Surplus (refer to Note 16). Such transactions are fully exempted from the connected transaction requirements under Rule 14A.90 of the Listing Rules.

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, 2019, the Company's accounts receivables consisted of C$1.7 million (2018: C$1.2 million) due from purchasers of the Company's crude oil and natural gas and C$0.07 million (2018: 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, 2019. The Company has also not written off any receivables during the year ended December 31, 2019 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, 2019 and 2018, all 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's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions. 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 Company prepares annual budgets and updates forecasts for operating, financing and investing activities on an ongoing basis to ensure it will have sufficient liquidity to meet its liabilities when due (see Note 3).

(Expressed in Canadian dollars unless otherwise indicated)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(b) Liquidity risk (Continued)

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 (refer to Note 30).

The following are the contractual maturities of financial liabilities:

	Total C$	1 year or less C$	1–3 years C$	4+ years C$
Accounts payable and accrued liabilities	7,099,021	7,099,021	—	—
Other liabilities	812,656	—	812,656	—
Lease liabilities	2,663,751	608,219	926,479	1,129,053
Shareholder loan(1)	675,000	—	675,000	—
Subordinated debt(2)	23,578,600	—	—	23,578,600
Total	34,829,028	7,707,240	2,414,135	24,707,653

(1) Gross value of shareholder loan as per Note 13

(2) Subordinated debt plus accrued and unpaid interest as per Note 13

(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, 2019 and 2018.

Interest rate risk

The Company was exposed to changes in interest rates with respect to its bank loan, which was repaid in full on May 25, 2019 (refer to Note 13). As at December 31, 2019, the Company's debts are comprised of shareholder loan and SubDebt, both at a fixed interest rate. As at December 31, 2019, the Company has no variable rate borrowings. As such, a one percent change in prevailing interest rates would not change the Company's net loss for the year ended December 31, 2019 (2018: C$41,642).

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(c) Market risk (Continued)

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, 2019, the Company held HK$0.85 million (C$0.14 million based on the 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.

The following represents the capital structure of the Company:

	Year ended December 31,	
	2019	2018
	C$	C$
Long term debt (excluding current portion as per Note 13)	**601,846**	24,164,243
Other liabilities	**812,656**	4,225,734
Lease liabilities	**2,663,751**	—
Net working capital deficit	**26,646,363**	1,645,799
Net debt	**30,724,616**	30,035,776
Shareholders' equity	**23,668,325**	68,060,664
Total	**54,392,941**	98,096,440

(Expressed in Canadian dollars unless otherwise indicated)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

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

On April 25, 2018, the Company obtained a PSG from Economic Development Canada ("**EDC**") totaling C$4.4 million. On June 28, 2019 the aggregate PSG was reduced to C$2.5 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. As at December 31, 2019, the Company has PSG coverage for the following L/C's:

Amount	Expiry
C$1,392,000	June 14, 2021
C$408,158	March 31, 2021

For the year ended December 31, 2019, the Company incurred fees totaling C$66,028 (2018: C$70,000) in relation to the PSG facility.

28 COMMITMENTS

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business. The following table outlines the Company's commitments as at December 31, 2019:

	Total C$	Less than 1 year C$	1–3 years C$	4–5 years C$	After 5 years C$
Transportation commitment	41,023,890	6,660,897	12,759,993	12,359,083	9,243,917
PSG facility (Note 27)	1,800,158	1,800,158	—	—	—
Total	42,824,048	8,461,055	12,759,993	12,359,083	9,243,917

Transportation Commitment:

The Company entered into a take or pay Firm Service Transportation ("**FT-R**") agreement with committed transportation volumes as below:

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

(Expressed in Canadian dollars unless otherwise indicated)

28 COMMITMENTS (Continued)

Transportation Commitment: (Continued)

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.

As at December 31, 2019, the Company has entered into the following fixed price physical commodity contract to forward sell natural gas at a fixed daily volume and fixed price per gigajoule ("**GJ**"):

Commodity	Term	Quantity	Price
Natural gas	January 1, 2020 to October 31, 2020	2,000 GJ/day	C$1.80 per GJ
Natural gas	January 1, 2020 to October 31, 2020	1,000 GJ/day	C$1.7925 per GJ
Natural gas	January 1, 2020 to October 31, 2020	5,000 GJ/day	C$1.80 per GJ

29 OTHER INCOME

	Year ended December 31,	
	2019	2018
	C$	C$
Total	**77,967**	812,703

For the year ended December 31, 2019, other income is primarily comprised of over-riding royalty payments paid to the Company by arm's length entities, whereby the Company receives a portion of oil and natural gas revenues generated from wells in which it holds a royalty interest.

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 bank loan. The remaining balance of other income is primarily comprised of over-riding royalty payments.

30 SUBSEQUENT EVENTS

COVID-19

The global impact of COVID-19 has resulted in significant declines in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. In addition, there has been a significant drop in the price of oil in global and Canadian markets. These factors may have a negative impact on the Company's operations and its ability to raise financing in the near future or on terms favourable to the Company. The potential impact that COVID-19 will have on the Company's business or financial results cannot be reasonably estimated at this time.

30 SUBSEQUENT EVENTS (Continued)

SubDebt Restructuring

On April 28, 2020, the Company and its subordinated debt lender agreed to restructure the loan agreement (the "**Restructuring**"). Under the terms of the Restructuring, financial covenants in respect of working capital, net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13) have been waived for the remainder of 2020, and will be reinstated March 31, 2021. A new funding covenant has been added under which the Company must secure additional capital in the form of new equity and/or subordinate debt for a cumulative amount equal to or greater than C$2 million on or before June 30, 2020. There is also an instalment payment plan whereby the Company would be required to make monthly payments if the amount of the loan exceeds C$20 million after July 1, 2021, or if the loan exceeds C$15 million after January 1, 2022.

Pursuant to the restructuring, the Company has also agreed to re-price the 8 million share purchase warrants previously issued to the SubLender. This re-pricing is subject to shareholder approval. The new exercise price of the warrants will be calculated based on the volume weighted average price of the Common Shares on the Stock Exchange for the five trading days immediately preceding the date on which the re-pricing of the exercise price of the warrants is approved by the shareholders.

Corporate Profile

BOARD OF DIRECTORS

Executive Directors

Mr. Le Bo *(resigned December 18, 2019)*
Mr. Yongtan Liu *(appointed December 18, 2019)*

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. Yongtan Liu
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 *(resigned December 18, 2019)*
Mr. Yongtan Liu *(appointed December 18, 2019)*
Mr. Bryan Daniel Pinney

NOMINATION COMMITTEE

Mr. Le Bo *(Chairman, resigned December 18, 2019)*
Mr. Yongtan Liu *(Chairman, appointed December 18, 2019)*
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

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Calgary, Alberta T2P 5C5
Canada

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Causeway Bay, Hong Kong

PRINCIPAL BANKERS

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Canada

COMPETENT PERSONS

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As to Canadian law

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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
"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

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

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

"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

"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

"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

"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
"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