Persta Resources Inc.

Persta Resources Inc.

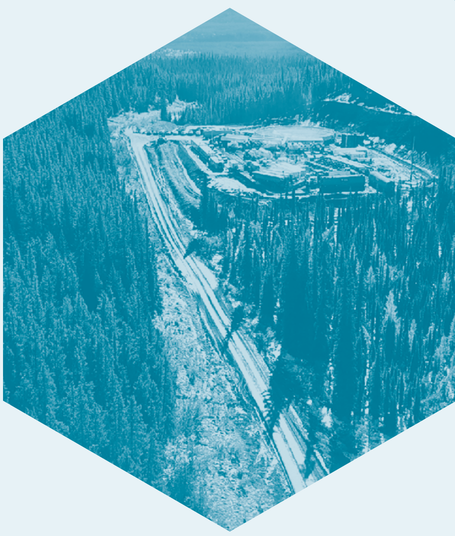
(incorporated under the laws of Alberta with limited liability)
Stock code: 3395

INTERIM REPORT 2020

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 two core areas of operations comprising: Alberta Foothills liquids-rich natural gas properties and Peace River light oil properties.



CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yongtan Liu
Mr. Pingzai Wang

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

REMUNERATION COMMITTEE

Mr. Richard Dale Orman *(Chairman)*
Mr. Yongtan Liu
Mr. Bryan Daniel Pinney

NOMINATION COMMITTEE

Mr. Yongtan Liu *(Chairman)*
Mr. Bryan Daniel Pinney
Mr. Peter David Robertson

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CANADA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

COMPETENT PERSONS

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

LEGAL ADVISERS

As to Hong Kong law

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

As to Canadian law

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

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

STOCK CODE AND BOARD LOT

Stock Code: 3395
Board Lot: 1,000

WEBSITE

www.persta.ca

PLACE OF SHARE LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited: 3395

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL HIGHLIGHTS

(Expressed in Canadian dollars)
Unaudited

C$ 000 except per share and boe	Three months ended June 30, 2020	2019	Change	Six months ended June 30, 2020	2019	Change
Production revenue	**2,740**	2,082	32%	**5,969**	7,147	(16%)
Net trading revenue	**(1)**	248	(100%)	**(1)**	219	(100%)
Operating net back(1)	**1,761**	306	476%	**2,442**	2,330	5%
Loss per share (basic and diluted)	**0.01**	0.04	(75%)	**0.02**	0.04	(60%)
Daily average sales volumes (boe/d)	**2,515**	1,622	55%	**2,554**	2,341	9%

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

ASSETS AND LIABILITIES

C$ 000	As at June 30, 2020	As at December 31, 2019	2018	2017	2016
Total assets	**56,162**	59,064	103,582	111,091	91,431
Total liabilities	**(37,164)**	(35,395)	(35,521)	(36,398)	(40,220)
Total net assets	**18,998**	23,669	68,061	74,693	51,211
Share capital	**210,367**	210,367	204,367	204,367	169,247
Warrants	**647**	647	647	—	—
Contributed surplus	**266**	74	—	—	—
Accumulated deficit	**(192,281)**	(187,419)	(136,953)	(129,674)	(118,036)
Total equity	**18,998**	23,669	68,061	74,693	51,211

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 unaudited condensed financial statements and notes thereto for the three and six months ended June 30, 2020 and the audited financial statements and notes thereto for the year ended December 31, 2019. All amounts and tabular amounts in this MD&A are stated in thousands of Canadian dollars ("**C$ 000**") unless indicated otherwise. This MD&A is dated August 14, 2020.

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 allows production from the Company's Voyager area gas wells, and will also allow for future expansion of the Company's natural gas exploration and production from the Voyager and surrounding area.

The Company commenced de-watering at its Voyager area on June 29, 2020, recovering the fluid which was injected into the wells during their completion. This operation is forecast to take up to three months. After de-watering, gas production will commence.

The Company is encouraged by the strengthening market for Western Canadian gas, which is anticipated to improve its future revenue and cashflow as additional volumes are produced from the Voyager area following de-watering.

Please refer to "*Events after the Reporting Period*" in this MD&A for additional disclosures in respect of the impact of COVID-19.

SELECTED QUARTERLY INFORMATION

Average Daily Production	**Q2 2020**	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Natural gas (mcf/d)	**14,357**	14,490	11,912	6,238	6,717	17,023	10,786	9,236
Crude oil (bbls/d)	**0**	48	80	74	76	90	64	75
NGLs and condensate (bbls/d)	**92**	92	113	45	59	114	95	66
Total production (boe/d)	**2,485**	2,554	2,178	1,159	1,255	3,041	1,957	1,680
Average Daily Trading								
Natural gas (boe/d)	**30**	12	48	598	367	39	315	222

Financial C$ 000s except share amounts	**Q2 2020**	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Production revenue	**2,740**	3,229	4,897	1,582	2,082	5,065	3,286	3,164
Net trading revenue	**(1)**	—	12	399	249	(30)	174	191
Royalties	**847**	(788)	(1,119)	(456)	(214)	(658)	(266)	(319)
Operating costs	**(1,824)**	(1,760)	(1,510)	(1,919)	(1,811)	(2,353)	(1,581)	(1,096)
Operating netback[(1)]	**1,761**	681	2,280	(395)	306	2,025	1,614	1,940
Net loss	**(1,569)**	(3,293)	(34,671)	(3,041)	(10,744)	(2,010)	(5,335)	(1,071)
Net working capital[(2)]	**(4,111)**	(28,122)	(26,646)	(5,880)	(3,441)	(6,446)	(1,646)	3,638
Total assets	**56,162**	57,283	59,064	92,233	94,131	103,665	103,582	111,604
Capital expenditures[(3)]	**128**	20	575	192	143	405	1,033	693
Loss per share (basic & diluted)	**0.01**	0.01	0.12	0.01	0.03	0.01	0.02	0.01

(1) Operating netback is defined as revenue less royalties, trading costs 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.

(3) Capital expenditures consist of total net 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 (usually from October to 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 reflect the seasonal demand cycle, and are strongest during the first quarters and fourth quarters of the year, and weakest in the second and third quarters of the year.

Operating costs have increased materially since the first quarter of 2019, as the Company's gas transport obligations commenced in late 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 planned 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.

The decrease in the Company's net working capital deficit in the current quarter is attributable to the reclassification of the subordinated debt from current to long term debt, as the Company is in compliance with all covenants associated with the debt at June 30, 2020 (see Note 10 of the condensed interim financial statements for the three and six months ended June 30, 2020 for additional details).

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 and the Company's lack of capital to bring reserves on stream.

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 June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Production						
Natural gas (mcf/d)	**14,357**	6,717	114%	**14,502**	11,813	23%
Oil (bbl/d)	**—**	76	(100%)	**24**	83	(71%)
NGLs (bbl/d)	**32**	21	52%	**32**	31	3%
Condensate (bbl/d)	**60**	38	57%	**60**	55	9%
Total production (boe/d)	**2,485**	1,255	98%	**2,533**	2,138	18%
Trading						
Natural gas (mcf/d)	**182**	2,205	(92%)	**129**	1,220	(89%)
Total trading (boe/d)	**30**	367	(92%)	**21**	203	(89%)
Total sales volume (boe/d)	**2,515**	1,622	55%	**2,554**	2,341	9%

Total sales volume for the three and six months ended June 30, 2020 were 55% and 9% respectively higher than the comparative periods in 2019. In 2019, the Company periodically shut-in production in response to weak gas markets prices experienced at the time. The gas market in western Canada has strengthened throughout 2020, and the Company has activated all wells capable of production to maximize revenues.

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. Increases in NGL and condensate production for the three and six months ended June 30, 2020 over the comparative periods in 2019 are consistent with the increase in natural gas production over the same periods.

Oil production for the six months ended June 30, 2020 was 71% lower than the comparative period in 2019 as the Company shut-in all oil production in March in response to the collapse in oil prices following the onset of the COVID-19 epidemic. The wells remained shut-in through the second quarter, and resumed production in July 2020.

The Company commenced de-watering of four wells at its Voyager area on June 29, 2020, recovering the fluid which was injected into the wells during their completion. This operation is forecast to take up to three months. After de-watering, gas production will commence. The natural gas market remains below historical averages, to exploit weakness in the market. The Company will continue to shut-in production and trade gas to fulfil its forward sale contracts when it is economically advantageous.

Revenue

	Three months ended June 30,			Six months ended June 30,		
C$ 000s	**2020**	2019	Change	**2020**	2019	Change
Production						
Natural gas	**2,576**	1,293	99%	**5,142**	5,318	(3%)
Crude oil	**30**	490	(94%)	**285**	962	(70%)
NGLs	**23**	17	35%	**56**	148	(62%)
Condensate	**111**	282	(60%)	**486**	719	(32%)
Total production revenue	**2,740**	2,082	32%	**5,969**	7,147	(16%)
Trading						
Natural gas trading revenue	**34**	382	(91%)	**48**	435	(89%)
Natural gas trading cost	**(35)**	(134)	(74%)	**(49)**	(216)	(77%)
Total trading (loss) revenue	**(1)**	248	(100%)	**(1)**	219	(100%)
Total revenue	**2,739**	2,330	18%	**5,968**	7,366	(19%)

Natural gas production revenue for the three months ended June 30, 2020 increased 99% over the same quarter in 2019, reflecting the higher production volumes experienced in the current quarter. Natural gas production revenue for the six months ended June 30, 2020 decreased 3% over the same period in 2019, as higher production volumes were offset by lower average sales prices realized this year.

Crude oil revenues for the three and six months ended June 30, 2020 were lower than the comparative periods in 2019, consistent with the decline in both production and pricing over the same periods. Crude oil prices have declined materially in 2020, as global demand collapsed in response to the COVID-19 epidemic. Pricing for NGL and condensate, which are correlated to crude oil, declined as well. While oil, NGL and condensate prices have strengthened from their March 2020 lows, they are forecast to remain below historical averages for the remainder of 2020 due to the continuing effects of the COVID-19 epidemic.

Total trading revenue for the three and six months ended June 30, 2020 was a loss of C$1k for both periods, compared to trading revenues of C$248k and C$219k respectively in the comparative periods in 2019. The cost of trading gas has fully offset the revenues from trading gas in the current periods, reflecting lower volatility experienced in 2020 as the gas market has strengthened. As the Company strategically trades gas during periods of 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 June 30,			Six months ended June 30,		
	2020	2019	Change	**2020**	2019	Change
Natural gas (C$/mcf)						
Average market price (AECO)	**1.90**	1.16	64%	**1.88**	1.44	31%
Average forward sales price	**1.98**	2.25	(12%)	**1.96**	2.27	(13%)
Average trading price	**2.05**	1.13	81%	**2.07**	3.32	(38%)
Average sales price	**2.03**	2.04	(1%)	**2.03**	2.43	(16%)
Crude oil (C$/bbl)						
Average market price (Edmonton Par)	**29.84**	73.81	(60%)	**40.64**	70.11	(42%)
Average sales price	**—**	69.84	(100%)	**65.81**	63.69	3%
NGLs (C$/bbl)						
Average market price (Propane/Butane)	**13.48**	19.67	(31%)	**17.86**	25.24	(29%)
Average sales price	**7.70**	8.59	(10%)	**9.57**	26.06	(63%)
Condensate (C$/bbl)						
Average market price (Pentane Plus)	**30.40**	74.21	(59%)	**46.11**	70.75	(35%)
Average sales price	**20.36**	80.90	(75%)	**44.50**	71.80	(38%)

Average gas sales price for both the three and six months ended June 30, 2020 averaged C$2.03/mcf. The 16% lower realized gas pricing for the six months ended June 30, 2020 over 2019 is attributable to reductions in both forward sales and trading prices experienced this year.

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 three and six months ended June 30, 2020, realized NGL prices were significantly below the average market price, as the Company's NGL sales were largely comprised of propane.

The Company's realized condensate price for the six months ended June 30, 2020 was consistent with the average market price over the same period. Variations from the benchmark are a function of product sales occurring periodically during the quarter, compared to the average reference price which is calculated daily.

As the Company's crude oil production was shut-in through the second quarter of 2020, its realized pricing for the six months ended June 30, 2020 exceeds the benchmark as its oil production was sold in the first quarter of the year prior to the collapse in the market from COVID-19.

Royalties

	Three months ended June 30,			Six months ended June 30,		
C$ 000s	**2020**	2019	Change	**2020**	2019	Change
Natural gas, NGLs and condensate	**(786)**	38	(2,168%)	**(91)**	578	(116%)
Crude oil	**(61)**	176	(135%)	**32**	294	(89%)
Total royalties (recovery)	**(847)**	214	(496%)	**(59)**	872	(107%)
Effective average royalty rate	**(31%)**	10%	(401%)	**(1%)**	12%	(108%)

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.

On a "per-well" basis, for both the three and six months ended June 30, 2020, 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% and 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. In the second quarter of 2020, the Company received a Gas Cost Allowance ("**GCA**") credit of C$1 million, following a government re-assessment of the 2019 royalties paid by the Company. During 2019, the Company did not receive any CGA allowances, which were approved following the re-assessment. The Company has further been authorized for GCA of approximately C$90k per month for the remainder of 2019. The Company also received C$82k for oil cost allowances in respect of prior periods.

As a result of these credits, the Company recovered C$0.85 million and C$60k of royalties for the three and six months ended June 30, 2020 respectively, compared to royalty expense of C$0.2 million and C$0.9 million respectively in the same period in 2019. The Company forecasts its effective royalty rate will range between 10–15% for the remainder of this year, reflecting GCA and the additional production from Voyager. Voyager benefits 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 June 30,			Six months ended June 30,		
C$ 000s	2020	2019	Change	2020	2019	Change
Natural gas, NGLs and condensate	**1,795**	1,700	6%	**3,497**	3,929	(11%)
Crude oil	**29**	110	(74%)	**87**	235	(63%)
Total operating costs	**1,824**	1,810	1%	**3,584**	4,164	(14%)
Unit Cost (C$/boe)						
Natural gas, NGLs and condensate	**7.85**	15.68	(50%)	**7.66**	10.51	(27%)
Crude oil	**20.11**	15.64	29%	**20.11**	15.57	29%
Average cost	**7.98**	15.68	(49%)	**7.77**	10.70	(27%)

Total operating costs ("**opex**") for natural gas, NGLs and condensate were consistent with the comparative periods for both the three and six months ended June 30, 2020. 2020 crude oil opex is lower than both comparative periods reflecting the shut-in of oil production at the end of March. For the three and six months ended June 30, 2020, opex on a unit average cost basis has declined 49% and 27% respectively over the comparative periods in 2019. This reflects the fixed nature of the majority of the Company's opex, as higher production volumes realized over 2020 have driven down costs on a per unit basis.

General and Administrative Costs

	Three months ended June 30,			Six months ended June 30,		
C$ 000s	2020	2019	Change	2020	2019	Change
Staff costs	**372**	479	(22%)	**1,044**	1,028	2%
Accounting, legal and consulting fees	**343**	544	(37%)	**524**	803	(35%)
Office	**7**	38	(83%)	**38**	72	(48%)
Other	**80**	184	(56%)	**148**	363	(59%)
Total G&A costs	**802**	1,245	(36%)	**1,755**	2,266	(23%)
Capitalized staff costs	**107**	82	30%	**165**	164	1%

Total general and administrative ("**G&A**") costs for the three and six months ended June 30, 2020 were 36% and 23% lower respectively than the comparative periods in 2019. Staff cost reductions were primarily realized from a 40% reduction in headcount, which is estimated to reduce staff costs by approximately C$500k on an annualized basis. Other costs include memberships, insurance, travel and accommodation. The reduction over the comparative period is due to lower travel and accommodation expenditures. Capitalized staff costs are comprised of qualifying expenditures in respect of geological and geophysical activities. Changes over the comparative quarter are a function of qualifying activity incurred during that time.

Share-based Expenses

	Three months ended June 30,			Six months ended June 30,		
C$ 000s	**2020**	2019	Change	**2020**	2019	Change
Share-based expenses	**31**	—	100%	**31**	—	100%
Total share-based expenses	**31**	—	100%	**31**	—	100%

The Company uses the fair-value method for the determination of non-cash related share-based payments expenses. During the second quarter of 2020, 3.78 million stock options were granted to employees at an exercise price of HK$0.52 per option. This was the initial award of options issued under the Company's stock option plan. Pursuant to this initial grant, the Company recognized C$31k of share-based expense in the second quarter of 2020 (2019: C$nil).

Finance Expenses

	Three months ended June 30,			Six months ended June 30,		
C$ 000s	**2020**	2019	Change	**2020**	2019	Change
Interest expense and financing costs:						
Subordinated debt	**1,101**	835	32%	**1,832**	1,584	16%
Right of use assets and leases	**57**	64	(11%)	**114**	129	(12%)
Termination fee	**—**	—	—	**352**	—	100%
Other	**32**	28	15%	**32**	28	15%
Accretion expenses:						
Decommissioning liabilities	**(5)**	(3)	73%	**17**	31	(47%)
Shareholder loan	**21**	—	100%	**39**	—	100%
Amortization of debt issuance costs	**126**	183	(31%)	**251**	251	(0%)
Total finance expenses	**1,332**	1,107	20%	**2,637**	2,024	30%

For the three and six months ended June 30, 2020, interest expense was incurred from the Company's subordinated debt and capitalized leases. Following the restructuring of the Company's subordinated debt in April 2020, the annualized interest rate increased from 12% to 16%. The rate can be reduced to 12% if the Company achieves certain benchmarks in future periods (refer to Note 10 of the condensed interim financial statements for the three and six months ended June 30, 2020 for additional information).

The Company also experienced one-time financing costs of C$352k pursuant to the cancellation of a warrant subscription agreement on January 24, 2020 (refer to Note 15 of the condensed interim financial statements for the three and six months ended June 30, 2020 for additional information). For the three and six months ended June 30, 2020, accretion expenses were incurred from decommissioning liabilities and the fair value adjustment of the Company's shareholder loans (refer to Note 10 of the condensed interim financial statements for the three and six months ended June 30, 2020 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.

The increase in total finance expenses for both the three and six months ended June 30, 2020 over the comparative periods in 2019 is attributable to the C$352k termination fee and additional interest incurred from the subordinated debt.

Depletion, Depreciation and Amortization

	Three months ended June 30,			Six months ended June 30,		
C$ 000s except per unit costs	**2020**	2019	Change	**2020**	2019	Change
Depletion	**1,056**	726	46%	**2,142**	2,438	(12%)
Depreciation	**8**	8	(5%)	**16**	16	(3%)
Amortization of right of use assets	**165**	161	2%	**326**	322	1%
Total DD&A	**1,229**	895	37%	**2,484**	2,776	(11%)
Per boe	**5.38**	7.75	(31%)	**5.39**	7.13	(24%)

Depletion, depreciation and amortization ("**DD&A**") expense is comprised of depletion incurred from production of the Company's developed assets, the depreciation expense comprised the depreciation of office fixed assets including office furniture, office equipment, vehicles, computer hardware and computer software and amortization capitalized leases carried as right of use assets.

Depletion charges are a function of both production and the capitalized value of assets subject to depletion. The increase in DD&A for the three months ended June 30, 2020 over the comparative period in 2019 is attributable to higher production over the same time. The decrease in DD&A for the six months ended June 30, 2020 over the same period in 2019 is attributable to the lower carrying value of the property, plant and equipment ("**PP&E**") assets subject to depletion following the C$15.2 million impairment incurred in 2019, offsetting the higher production experienced in this year.

Impairment Losses and Write-offs

	Three months ended June 30,			Six months ended June 30,		
C$ 000s	**2020**	2019	Change	**2020**	2019	Change
PP&E impairment and write-offs	**—**	7,825	(100%)	**126**	7,825	(98%)
E&E impairment and write-offs	**—**	—	—	**355**	220	62%
Total impairment and write-offs	**—**	7,825	(100%)	**481**	8,045	(94%)

Impairment is incurred if the estimated recoverable amount of an asset exceeds its carrying amount. 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 expires, 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 Impairment

The Company did not identify any indications of impairment in its PP&E assets at June 30, 2020. At March 31, 2020, the Company identified indicators of impairment in its PP&E assets from its Dawson CGU attributable to declines in oil prices. The Company calculated the recoverable amount of the Dawson CGU based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate. Based on the assessment as at March 31, 2020, the carrying amount of the Company's PP&E assets in respect of the Dawson GCU was higher than the recoverable amount of C$0.6 million, as such the Company has recognized a PP&E impairment loss of C$0.13 million (2019: C$nil).

Exploration and Evaluation Impairment

The Company did not identify any indications of impairment in its exploration and evaluation ("**E&E**") assets at June 30, 2020. At March 31, 2020, the Company identified indicators of impairment in its E&E assets from its Dawson CGU attributable to declines in oil prices. The Company calculated the recoverable amount of the Dawson CGU based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate. Based on the assessment as at March 31, 2020, the carrying amount of the Company's E&E assets in respect of the Dawson GCU was higher than the recoverable amount of C$0.6 million, as such the Company has recognized an E&E impairment loss of C$0.14 million (2019: C$nil).

Other Income

	Three months ended June 30,			Six months ended June 30,		
C$ 000s	**2020**	2019	Change	**2020**	2019	Change
Other income	**63**	21	200%	**83**	26	213%
Total other income	**63**	21	200%	**83**	26	213%

Other income is comprised 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, and income generated from sources outside normal operations including rental income and subsidies.

The increase in other income during the first and second quarters of 2020 over the same periods in 2019 is attributable to payroll subsidies received from the Government of Canada for COVID-19 relief.

Loss and Comprehensive Loss

	Three months ended June 30,			Six months ended June 30,		
C$ 000s	**2020**	2019	Change	**2020**	2019	Change
Loss and comprehensive loss	**(1,569)**	(10,744)	(85%)	**(4,862)**	(12,754)	(62%)
Total loss and comprehensive loss	**(1,569)**	(10,744)	(85%)	**(4,862)**	(12,754)	(62%)

Loss and comprehensive loss for the three and six months ended June 30, 2020 was 85% and 62% lower respectively than the comparable periods in 2019. The decrease is primarily attributable to lower impairment losses recognized this year.

CAPITAL EXPENDITURES

	Three months ended June 30,			Six months ended June 30,		
C$ 000s	**2020**	2019	Change	**2020**	2019	Change
PP&E						
Well site	**17**	—	100%	**17**	—	100%
Facilities and pipeline	**—**	—	—	**—**	9	(100%)
G&A costs capitalized	**—**	82	(100%)	**—**	164	(100%)
Total PP&E	**17**	82	(79%)	**17**	173	(90%)
E&E Assets						
G&A costs capitalized	**107**	—	100%	**165**	—	100%
Unevaluated drilling and completion costs	**4**	16	(76%)	**(34)**	344	(110%)
Total E&E	**111**	16	592%	**131**	344	(62%)
Total PP&E and E&E	**128**	98	30%	**148**	548	(73%)
Change in non-cash working capital	**(693)**	(1,746)	(60%)	**(447)**	(2,189)	(80%)
Total	**(565)**	(1,648)	(66%)	**(299)**	(1,641)	(82%)

The Company's 2020 capital expenditures ("**capex**") were restricted by free cash available for capex investment. 2019 PP&E capex was incurred for tangible production equipment at Basing and Voyager. 2020 and 2019 E&E capex was comprised of expenditures incurred at Voyager to prepare the wells for first production.

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, shareholders' loans, 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:

C$ 000s	**As at June 30, 2020**	As at December 31, 2019
Long term debt(1)	**25,057**	602
Other liabilities	**912**	813
Lease liabilities	**2,368**	2,664
Net working capital deficit(2)	**4,111**	26,646
Net debt	**32,447**	30,726
Shareholders' equity(3)	**18,998**	23,668
Total capital	**51,445**	54,394
Gearing ratio(4)	**63%**	56%

Notes:

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

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

(3) As at June 30, 2020 and the date of this MD&A, the Company has 301,886,520 common shares issued and outstanding, 8 million warrants issued with a strike price of HK$3.16 per warrant and 3.78 million stock options issued with a strike price of HK$0.52 per option.

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

At December 31, 2019, the working capital deficit includes C$22.3 million of long term debt which was held as current as the Company was not in compliance with certain covenants of its subordinated debt facility. At June 30, 2020, the Company was in compliance with all covenants and this debt was reclassified to long term debt, as it is not longer in a demand position.

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 available 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 June 30, 2020, 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 three and six months ended June 30, 2020 and 2019, the Company incurred fees totaling C$30k 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 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.

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 10 of the condensed interim financial statements for the three and six months ended June 30, 2020) have been waived for the remainder of 2020, and will be reinstated starting March 31, 2021. 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.

A new funding covenant was 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. This covenant was satisfied through the procurement of a shareholder loan in the amount of C$2.0 million on June 2, 2020 (refer to Note 10 of the condensed interim financial statements for the three and six months ended June 30, 2020). As at June 30, 2020, the Company was in compliance with all covenants and the subordinated debt is no longer in a demand position. As such, it has been reclassified to long term debt as at June 30, 2020.

At June 30, 2020 the Company had a working capital deficiency of C$4.1 million, has drawn C$23.7 million on its subordinated debt facility of C$26.0 million (additional draws on the subordinated debt facility are subject to approval of the lender). For the six months ended June 30, 2020, the Company used cash in operating activities of C$1.5 million.

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.

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 for gross proceeds of HK$35.4 million (approximately C$6.0 million). As at June 30, 2020 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 for the six months ended June 30, 2020 and 2019 and up to the date of the MD&A. Please refer to Note 13 of the condensed interim financial statements for the three and six months ended June 30, 2020 for additional information.

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**"). On May 18, 2020, the Company granted 3.78 million options with an exercise price of HK$0.52 per option and a term of 5 years. The options vest equally over a 3 year period, with the first tranche vesting on the first anniversary of the date of grant, and the second and third tranches vesting equally on the second and third anniversary respectively.

Details of the options granted under the Stock Option Plan and those remained outstanding as at June 30, 2020 are set out below:

		Number of options					
Name and category of participant	Date of grant	As of January 1, 2020	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	As of June 30, 2020
Director(s) and their associate(s)							
Mr. Pingzai Wang	May 18, 2020	—	1,500,000	—	—	—	1,500,000[(1)]
Other employees	May 18, 2020	—	2,280,000	—	—	—	2,280,000[(1)]
Total		—	3,780,000	—	—	—	3,780,000[(1)]

Note:

(1) The options vest equally over a 3 year period, with the first tranche vesting and exercisable on the first anniversary of the date of grant, and the second and third tranches vesting equally and exercisable on the second and third anniversary respectively.

Please refer to Note 13 of the condensed interim financial statements for the three and six months ended June 30, 2020 for additional information.

COMMITMENTS

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business. The Company's commitments and contingencies are disclosed in Note 21 of the condensed interim financial statements for the three and six months ended June 30, 2020.

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 six months ended June 30, 2020 and 2019.

RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

Key management compensation for the three and six months ended June 30, 2020 totaled C$0.4 million and C$1.0 million respectively (2019 three months: C$0.5 million, 2019 six months: C$1.0 million). During the three and six months ended June 30, 2020, the Company granted 3.78 million stock options to key management personnel. Share-based compensation expense of C$0.03 million was recognized for the three and six month periods ended June 30, 2020 (2019: C$nil) in respect of this grant, using the fair value assessment detailed in Note 13 of the condensed interim financial statements for the three and six months ended June 30, 2020.

(b) Transactions with directors

Directors' Fees and Phantom Unit Plan

Director compensation for the three and six month periods ended June 30, 2020 totaled C$0.02 million and C$0.15 million respectively (2019 three months: C$0.06 million, 2019 six months: C$0.12 million). Total compensation for the six months ended June 30, 2020 was comprised of cash payments of C$0.06 million and C$0.1 million accrued pursuant to the Phantom Unit Plan as defined in Note 19 of the Company's audited financial statements for the year ended December 31, 2019 (2019: C$0.06 million cash and C$0.06 million accrued phantom units). As at June 30, 2020, the total accrued compensation under the Phantom Unit Plan was C$0.3 million (2019: C$0.40 million).

Shareholder Loan

On June 2, 2020, Jixing advanced C$2 million to the Company (the "**2020 Shareholder Loan**"). The proceeds of the 2020 Shareholder Loan will be used for working capital and general corporate purposes. The 2020 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. At June 30, 2020, the 2020 Shareholder Loan is carried at its deemed fair value of C$1.8 million (refer to Note 10 of the condensed interim financial statements for the three and six months ended June 30, 2020).

Save as disclosed above, all other transactions with directors are unchanged from those disclosed in Note 26 of the audited financial statements for the year ended December 31, 2019.

OFF-BALANCE SHEET TRANSACTIONS

The Company was not involved in any off-balance sheet transactions during the three and six months ended June 30, 2020 and 2019.

PLEDGED ASSETS

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

CONTINGENT LIABILITIES

As at June 30, 2020 and up to the date of this MD&A, the Company had no material undisclosed contingent liabilities.

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 relevant subsidiaries, associates and joint ventures during the three and six months ended June 30, 2020 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 report, as pursuant to paragraphs 32(4) and 32(9) of Appendix 16 of the Listing Rules.

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 and gas 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.

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, subordinated debt and shareholder loans. Due to their near term maturities, accounts receivable, accounts payable and accrued liabilities, cash and cash equivalents and shareholder loans are recorded at fair value. The subordinated debt is recorded at amortized cost.

The Company did not enter into any financial derivatives contracts for the three and six months ended June 30, 2020 and 2019. For the six months ended June 30, 2020, the Company experienced a foreign exchange gain of C$3k (2019: loss of C$18k. These foreign exchange gains and 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 consolidated financial statements. As at June 30, 2020, 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
Natural gas	May 1, 2020 to October 31, 2020	2,000 GJ/day	C$2.085 per GJ

HUMAN RESOURCES

The Company had 6 employees at June 30, 2020 (2019: 10). 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 six months ended June 30, 2020 totaled C$1 million (2019: C$1 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 annual financial statements for the year ended December 31, 2019.

CHANGES IN ACCOUNTING POLICIES

The Company's accounting policies are described in Note 4 to the audited annual financial statements for the year ended December 31, 2019 of the Company. Those accounting policies have been applied consistently to all periods presented in the interim condensed financial statements for the three and six months ended June 30, 2020.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

For the period starting January 1, 2020 and ending June 30, 2020, Mr. Le Bo until March 4, 2020 and subsequently Mr. Pingzai Wang in the capacity as 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 period starting January 1, 2020 and ending June 30, 2020, Mr. Le Bo until March 4, 2020 and subsequently Mr. Pingzai Wang 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.

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. Other than the appointment of Mr. Wang, there were no changes made to Persta's internal controls over financial reporting during the period beginning on January 1, 2020 and ending on June 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Management has concluded that Persta's internal control over financial reporting was effective as of June 30, 2020. 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 arrangements 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 June 30,			Six months ended June 30,		
C$ 000s	**2020**	2019	Change	**2020**	2019	Change
Commodity sales from production	**2,740**	2,082	32%	**5,969**	7,147	(16%)
Net trading revenue	**(1)**	248	(100%)	**(1)**	219	(100%)
Royalties	**847**	(214)	(496%)	**59**	(872)	(107%)
Operating costs	**(1,824)**	(1,810)	1%	**(3,584)**	(4,164)	(14%)
Operating netback	**1,761**	306	476%	**2,442**	2,330	5%

Adjusted EBITDA

	Three months ended June 30,			Six months ended June 30,		
C$ 000s	**2020**	2019	Change	**2020**	2019	Change
Commodity sales from production	**2,740**	2,082	32%	**5,969**	7,147	(16%)
Net trading revenue	**(1)**	248	(100%)	**(1)**	219	(100%)
Royalties	**847**	(214)	(496%)	**59**	(872)	(107%)
Operating costs	**(1,824)**	(1,810)	1%	**(3,584)**	(4,164)	(14%)
General and administrative costs	**(802)**	(1,245)	(36%)	**(1,755)**	(2,266)	(23%)
Other income	**63**	21	199%	**83**	26	213%
Adjusted EBITDA	**1,022**	(918)	211%	**770**	90	759%

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
k	thousands

CONVERSION FACTORS — IMPERIAL TO METRIC

Bbl = 0.1590 cubic metres (m^3)

Mcf = 0.0283 cubic metres ($103m^3$)

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)

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its 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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") to ensure that the Company's business activities and decision making processes are regulated in a proper and prudent manner.

The Company has complied with the relevant code provisions contained in the CG Code during the six months ended June 30, 2020 (the "**Reporting Period**").

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 during the Reporting Period.

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 of the Company (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 Reporting Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

REVIEW OF THE INTERIM RESULTS

The Company established an audit and risk committee of the Company (the "**Audit and Risk Committee**") with written terms of reference in compliance with the CG Code. As at the date of this interim report, the Audit and Risk Committee comprises three independent non-executive Directors, namely Mr. Peter David Robertson (Chairman), Mr. Richard Dale Orman and Mr. Bryan Daniel Pinney. The Audit and Risk Committee has reviewed the Company's interim results for the six months ended June 30, 2020 and has also discussed with management internal controls, accounting principles and practices adopted by the Company. The Audit and Risk Committee is of the opinion that the interim results have been prepared in accordance with the applicable accounting standards, laws and regulations and the Listing Rules and that adequate disclosures have been made.

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

As at June 30, 2020, 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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
Yongtan Liu (Note 1)	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%
Pingzai Wang	Beneficial owner	1,940,000	0.64%

Notes:

1. 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. Yongtan Liu ("**Mr. Liu**") and Ms. Lijun Zhang ("**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.

2. Mr. Pingzai Wang holds a total of 1,500,000 stock options and 440,000 Common Shares of the Company.

Interest in shares of the associated corporation of the Company

Name of Directors	Name of associated corporation	Capacity/Nature of interest	Long/Short position	Number of shares	Approximate % of issued share capital
Yongtan Liu (Note 1)	Changchun	Security interest	Long position	N/A	66.70%
	Jixing Gas Holdings Limited	Beneficial owners	Long position	N/A	66.70%

Note:

1. Appointed as director on December 18, 2019. Jixing Gas Holdings Limited is owned as to 100% by Changchun which is owned as to approximately 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 June 30, 2020, 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.

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

As at June 30, 2020, 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 are to be disclosed by 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 Investment Holdings Ltd. ("**Aspen**") (Note 1)	Beneficial owner and parties acting in concert	186,862,832 (Long Position)	61.90%
Le Bo ("**Mr. Bo**") (Note 5)	Beneficial owner, interest of spouse, interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	61.90%
Yuan Jing ("**Mr. Jing**") (Note 2)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	61.90%
Ji Lin Hong Yuan Trade Group Limited (吉林省弘原經貿集團有限公司) ("**JLHY**") (Notes 1 and 3)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	61.90%
Jing Hou ("**Ms. Hou**") (Note 4)	Beneficial owner, interest of spouse and parties acting in concert	186,862,832 (Long Position)	61.90%
1648557 Alberta Ltd. ("**164 Co**") (Notes 1 and 5)	Interest in controlled corporation and parties acting in concert	186,862,832 (Long Position)	61.90%
Changchun Liyuan Investment Co., Ltd. (長春市麗源投資有限公司) ("**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%

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Jixing Gas Holding Limited (Note 8)	Security interest	185,982,832	61.61%
	Beneficial owner	23,600,000	7.82%
Changchun (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 dated December 18, 2015 (the "**Unanimous Shareholders Agreement**") and the first supplemental unanimous shareholders agreement dated April 19, 2016 (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 61.90% 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 61.90% 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 61.90% 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 61.90% 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 61.90% 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 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 June 30, 2020, 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.

CHANGES IN THE BOARD AND THE DIRECTOR'S INFORMATION

Changes in the Board since the date of annual report 2019 of the Company and as of the date of this report are set out below:

- Mr. Peter David Robertson, an independent non-executive Director, was appointed as the chairman of the Audit and Risk Committee, in place of Mr. Bryan Daniel Pinney, an independent non-executive Director, who continued to be a member of the Audit and Risk Committee with effect from April 29, 2020 (Calgary time).

- Mr. Yuan Jing retired as a non-executive Director with effect from July 1, 2020 (Calgary time).

- Mr. Pingzai Wang was appointed as an executive Director with effect from July 1, 2020 (Calgary time).

Save as disclosed above, the Company is not aware of other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PUBLICATION OF INFORMATION

This interim report is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.persta.ca). This interim report is prepared in both English and Chinese and in the event of inconsistency, the English text of this interim report shall prevail over the Chinese text.

Yongtan Liu
Chairman
Calgary, Canada, August 14, 2020

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

As at June 30, 2020
(Expressed in Canadian dollars)
Unaudited

	Note	**As at June 30, 2020**	As at December 31, 2019
Assets			
Current assets:			
Cash and cash equivalents	4	**1,823,950**	1,060,752
Accounts receivable	5	**858,814**	1,789,983
Prepaid expenses and deposits		**479,086**	608,391
Total current assets		**3,161,850**	3,459,126
Exploration and evaluation assets	6	**11,520,293**	18,543,990
Property, plant and equipment	7	**39,374,453**	34,650,210
Right of use assets	8	**2,105,829**	2,410,471
Total Assets		**56,162,425**	59,063,797
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	9	**6,593,740**	7,099,021
Current portion of long term debt	10	**—**	22,133,799
Current portion of lease liabilities	8	**473,017**	608,219
Decommissioning liabilities	11	**205,836**	264,450
Total current liabilities		**7,272,593**	30,105,489
Other liabilities	12	**911,713**	812,656
Lease liabilities	8	**1,894,931**	2,055,532
Long term debt	10	**25,056,779**	601,846
Decommissioning liabilities	11	**2,028,368**	1,819,949
Total liabilities		**37,164,383**	35,395,472
Shareholders' equity:			
Share capital	13	**210,366,683**	210,366,683
Warrants	13	**647,034**	647,034
Contributed surplus		**265,642**	73,895
Accumulated deficit		**(192,281,317)**	(187,419,287)
Total shareholders' equity		**18,998,042**	23,668,325
Total Liabilities and Shareholders' Equity		**56,162,425**	59,063,797
Going concern	3		
Subsequent event	22		

The accompanying notes form part of these condensed interim financial statements.

CONDENSED INTERIM STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the three and six months ended June 30, 2020
(Expressed in Canadian dollars)
Unaudited

	Note	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenue					
Commodity sales from production	14	**2,739,704**	2,082,155	**5,968,747**	7,147,466
Trading (loss) revenue	14	**(838)**	248,215	**(1,082)**	218,708
Royalty recovery (expense)		**847,079**	(213,726)	**59,129**	(872,161)
Total net revenue		**3,585,945**	2,116,644	**6,026,794**	6,494,013
Expenses					
Operating costs		**(1,824,549)**	(1,810,416)	**(3,584,304)**	(4,163,641)
General and administrative costs		**(801,863)**	(1,244,594)	**(1,755,424)**	(2,265,926)
Share-based expenses	13	**(30,800)**	—	**(30,800)**	—
Depletion, depreciation and amortization		**(1,228,949)**	(894,531)	**(2,483,661)**	(2,776,332)
Impairment losses and write-offs	6, 7	**—**	(7,824,863)	**(480,622)**	(8,044,705)
Total expenses		**(3,886,161)**	(11,774,404)	**(8,334,812)**	(17,250,604)
Loss from operations		**(300,216)**	(9,657,760)	**(2,308,017)**	(10,756,591)
Other income		**62,854**	20,980	**82,829**	26,428
Finance expenses	15	**(1,331,643)**	(1,106,985)	**(2,636,845)**	(2,023,520)
Loss before taxes		**(1,569,005)**	(10,743,765)	**(4,862,033)**	(12,753,683)
Income taxes	16	**—**	—	**—**	—
Loss and comprehensive loss		**(1,569,005)**	(10,743,765)	**(4,862,033)**	(12,753,683)
Loss per share					
Basic and diluted	17	**(0.01)**	(0.04)	**(0.02)**	(0.04)

The accompanying notes form part of these condensed interim financial statements.

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

As at June 30, 2020
(Expressed in Canadian dollars)
Unaudited

	Note	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	Total Equity
Balance as at January 1, 2020	13	**210,366,683**	**647,034**	**73,895**	**(187,419,284)**	**23,668,328**
Share-based expenses		**—**	**—**	**30,800**	**—**	**30,800**
Contributed surplus		**—**	**—**	**160,947**	**—**	**160,947**
Loss for the period		**—**	**—**	**—**	**(4,862,033)**	**(4,862,033)**
Balance as at June 30, 2020		**210,366,683**	**647,034**	**265,642**	**(192,281,317)**	**18,998,042**

	Note	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	Total Equity
Balance as at January 1, 2019	13	204,366,683	647,034	—	(136,953,053)	68,060,664
Shares issued for cash		6,000,000	—	—	—	6,000,000
Loss for the period		—	—	—	(12,753,683)	(12,753,683)
Balance as at June 30, 2019		210,366,683	647,034	—	(149,706,736)	61,306,981

The accompanying notes form part of these condensed interim financial statements.

CONDENSED INTERIM STATEMENT OF CASH FLOWS

For the three and six months ended June 30, 2020
(Expressed in Canadian dollars)
Unaudited

	Note	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash provided by (used in):					
Operations					
Net loss		**(1,569,005)**	(10,743,765)	**(4,862,033)**	(12,753,683)
Items not involving cash:					
Depletion, depreciation and amortization		**1,228,949**	894,531	**2,483,661**	2,776,332
Share-based expenses		**30,800**	—	**30,800**	—
Non-cash finance expenses		**412,147**	867,654	**612,580**	1,562,030
Unrealized foreign exchange (gain) loss		**2,178**	11,270	**(3,005)**	18,602
Impairment losses and write-offs		**—**	7,824,863	**480,622**	8,044,705
Funds from operations		**105,069**	(1,145,447)	**(1,257,374)**	(352,014)
Changes in non-cash working capital	4	**(1,399,106)**	(990,130)	**(191,789)**	(1,643,229)
Total cash (used in) generated from operations		**(1,294,036)**	(2,135,577)	**(1,449,163)**	(1,995,243)
Investing					
Expenditures on property, plant and equipment, net		**(79,871)**	848,377	**340,053**	764,379
Expenditures on exploration and evaluation assets, net		**(110,749)**	(1,745,539)	**(130,697)**	(2,189,280)
Net cash generated from (used in) investing		**(190,620)**	(897,162)	**209,356**	(1,424,901)
Financing					
Proceeds from debt		**2,000,000**	—	**2,000,000**	—
Proceeds from share issuance		**—**	6,000,000	**—**	6,000,000
Repayment of bank loan		**—**	(2,664,243)	**—**	(4,164,243)
Changes in non-cash working capital		**—**	(40,823)	**—**	—
Net cash from financing		**2,000,000**	3,294,934	**2,000,000**	1,835,757
Increase (decrease) in cash and cash equivalents		**515,344**	262,195	**760,193**	(1,584,387)
Effect of exchange rate changes on cash and cash equivalents		**(2,178)**	(11,273)	**3,005**	(18,604)
Cash and cash equivalents, beginning of period		**1,310,784**	751,796	**1,060,752**	2,605,709
Cash and cash equivalents, end of period		**1,823,950**	1,002,718	**1,823,950**	1,002,718
Supplementary information:					
Interest paid		**822,102**	59,147	**1,525,595**	154,727

The accompanying notes form part of these condensed interim financial statements.

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 "3395". The Company has been a reporting issuer under the Securities Act (Alberta) since October 2, 2018.

2 BASIS OF PREPARATION

These unaudited condensed interim financial statements have been prepared by management in accordance with International Accounting Standard ("**IAS**") 34, "Interim Financial Reporting". The Financial Statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these unaudited condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended December 31, 2019. These unaudited condensed interim financial statements have been prepared following the same accounting policies as the annual audited financial statements for the year ended December 31, 2019 and should be read in conjunction with the annual audited financial statements and the notes thereto. The disclosures provided below are incremental to those included in the 2019 annual financial statements. These unaudited condensed interim financial statements were approved by the board (the "**Board**") of directors (the "**Directors**") on August 14, 2020.

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

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 June 30, 2020, the Company had a working capital deficiency of C$4.1 million, has drawn C$23.7 million on its subordinated debt facility of C$26.0 million (additional draws on the subordinated debt facility are subject to approval of the lender). For the six months ended June 30, 2020, the Company used cash in operating activities of C$1.5 million.

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 10) have been waived for the remainder of 2020, and will be reinstated starting March 31, 2021. 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.

(Expressed in Canadian dollars unless otherwise indicated)

3 GOING CONCERN (Continued)

A new funding covenant was 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. This covenant was satisfied through the procurement of a shareholder loan in the amount of C$2.0 million on June 2, 2020 (refer to Note 10). As at June 30, 2020, the Company was in compliance with all covenants and the subordinated debt is no longer in a demand position. As such, it has been reclassified to long term debt as at June 30, 2020.

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.

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 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

C$	**As at June 30, 2020**	As at December 31, 2019
Deposits with banks and other financial institutions	**1,814,939**	1,054,708
Cash on hand	**9,011**	6,044
Cash and cash equivalents in the statement of financial position and statement of cash flows	**1,823,950**	1,060,752

(Expressed in Canadian dollars unless otherwise indicated)

4 CASH AND CASH EQUIVALENTS (Continued)

(b) Supplementary cash flows information

C$	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Change in non-cash working capital:				
Accounts receivable	**(422,358)**	32,572	**(931,169)**	647,162
Prepaid expenses and deposits	**(203,610)**	30,851	**(129,305)**	(69,962)
Accounts payable and accrued liabilities	**1,812,244**	2,911,776	**406,224**	3,076,223
Lease liabilities	**235,000**	97,528	**448,285**	195,057
	1,421,276	3,072,727	**(205,965)**	3,848,480
Change in non-cash working capital included in investing and financing activities	**(2,820,382)**	(4,062,857)	**14,176**	(5,491,709)
Change in non-cash working capital included in operating activities	**(1,399,106)**	(990,130)	**(191,789)**	(1,643,229)

5 ACCOUNTS RECEIVABLE

C$	As at June 30, 2020	As at December 31, 2019
Trade receivables	**763,801**	1,716,964
Other receivables	**95,013**	73,019
Total	**858,814**	1,789,983

(Expressed in Canadian dollars unless otherwise indicated)

5 ACCOUNTS RECEIVABLE (Continued)

(a) Aging analysis of trade receivables

As at June 30, 2020 and December 31, 2019, 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:

C$	**As at June 30, 2020**	As at December 31, 2019
Within 1 month	**763,801**	1,716,964
1 to 3 months	**—**	—
Over 3 months	**—**	—
Total	**763,801**	1,716,964

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

(b) Impairment of accounts receivable

Impairment losses in respect of trade and other 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 account receivables directly. No accounts receivable are considered individually nor collectively to be impaired. No material balances of trade or other receivables are past due, and no impairment loss has been recognized for the three and six month periods ended June 30, 2020 and 2019.

6 EXPLORATION AND EVALUATION ASSETS

C$	**As at June 30, 2020**	As at December 31, 2019
Balance, beginning of period	**18,543,990**	43,484,822
Additions	**166,191**	1,278,860
Transfer to PP&E (Note 7)	**(6,799,987)**	—
Cost recovery	**(35,494)**	(298,659)
Write-offs	**(218,544)**	(623,720)
Impairment	**(135,864)**	(25,297,313)
Balance, end of period	**11,520,293**	18,543,990

6 EXPLORATION AND EVALUATION ASSETS (Continued)

Exploration and evaluation ("**E&E**") assets consist of undeveloped lands, unevaluated seismic data and unevaluated drilling and completion costs on the Company's exploration projects which are pending the determination of proven or probable reserves in sufficient quantity to warrant commercial development. Transfers are made to property, plant and equipment ("**PP&E**") as proven or probable reserves are determined. E&E assets are expensed due to uneconomic drilling and completion activities and lease expiries.

For the six months ended June 30, 2020, general and administrative ("**G&A**") costs of C$0.16 million (2019: C$0.07 million) were capitalized and included in E&E additions as they were directly attributable to exploration and development activities. For the six months ended June 30, 2020, the Company wrote-off C$0.22 million (2019: C$0.22 million) of E&E assets attributable to land lease expiries.

PP&E transfer

The Company commenced de-watering at its Voyager area on June 29, 2020, recovering the fluid which was injected into the wells during their completion. This operation is forecast to take up to three months. After de-watering, gas production will commence. With the commissioning of production operations, at June 30, 2020 the Company transferred C$6.8 million of E&E assets to PP&E, comprised of development and production costs incurred for Voyager.

E&E impairment

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. Refer to Notes 4 and 5 in the Company's audited financial statements for the year ended December 31, 2019 for additional disclosures in respect of the Company's significant accounting policies and significant accounting judgements.

At June 30, 2020, the Company did not identify indicators of impairment on any of its CGUs and therefore, an impairment test was not performed. At March 31, 2020, the Company identified indicators of impairment in its E&E assets from its Dawson CGU attributable to declines in oil prices. The Company calculated the recoverable amount of the Dawson CGU based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate. Based on the assessment as at March 31, 2020, the carrying amount of the Company's E&E assets in respect of the Dawson GCU was higher than the recoverable amount of C$0.6 million, as such the Company has recognized an E&E impairment loss of C$0.14 million (2019: C$nil).

The recoverable amount of the Dawson CGU was estimated based upon the higher of the value in use or fair value less costs of disposal. In each case, the value in use methodology was used. In determining value in use, forecasted cash flows from proved plus probable reserves using a before-tax discount rate at 12%, with future development costs as obtained from the independent reserve report dated December 31, 2019, and escalated prices as described below.

(Expressed in Canadian dollars unless otherwise indicated)

6 EXPLORATION AND EVALUATION ASSETS (Continued)

E&E impairment (Continued)

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

	As at June 30, 2020 Edmonton Oil (C$/Bbl)	As at June 30, 2020 AECO Gas (C$/mmbtu)
2020	**30.28**	**2.10**
2021	**46.51**	**2.35**
2022	**54.77**	**2.55**
2023	**62.26**	**2.65**
2024	**69.66**	**2.75**
2025	**71.07**	**2.58**
2026	**72.59**	**2.91**
2027	**74.15**	**2.97**
2028	**75.74**	**3.03**
2029	**77.35**	**3.09**
2030(1)	**+2.0%/yr**	**+2.0%/yr**

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

7 PROPERTY, PLANT AND EQUIPMENT

C$	Cost	Accumulated Depletion, Depreciation and Impairment	Net Book Value
Balance, January 1, 2019	152,811,966	(97,313,501)	55,498,465
Additions (net)	35,856	—	35,856
Change in decommissioning obligations	(141,736)	—	(141,736)
Cost recovery	(999,170)	—	(999,170)
Depletion and depreciation	—	(4,521,945)	(4,521,945)
Impairment	—	(15,221,260)	(15,221,260)
Balance, December 31, 2019	151,706,916	(117,056,706)	34,650,210
Balance, January 1, 2020	**151,706,916**	**(117,056,706)**	**34,650,210**
Additions	**16,549**	**—**	**16,549**
Change in decommissioning obligations	**191,858**	**—**	**191,858**
Transfer from E&E (Note 6)	**6,799,987**	**—**	**6,799,987**
Depletion and depreciation	**—**	**(2,157,936)**	**(2,157,936)**
Impairment	**—**	**(126,215)**	**(126,215)**
Balance, June 30, 2020	**158,715,310**	**(119,340,857)**	**39,374,453**

7 PROPERTY, PLANT AND EQUIPMENT (Continued)

Substantially all of PP&E consists of development and production assets. During the six months ended June 30, 2020, and 2019, the Company's PP&E additions were comprised of expenditures at Basing (2019: C$0.04 million). With the commissioning of production operations at Voyager, at June 30, 2020 the Company transferred C$6.8 million of E&E assets to PP&E (see Note 6).

Depletion and depreciation

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 six month period ended June 30, 2020 includes estimated future development costs ("**FDC**") of C$6.02 million (2019: C$24.5 million) associated with the development of the Company's proved plus probable reserves. The reduction in FDC over the comparative period is attributable to changes in the Company's plans for developing its proved plus probable reserves. For the six month periods ended June 30, 2020 and 2019, there were no write-offs of PP&E attributable to land lease expiries.

PP&E impairment

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. Refer to Notes 4 and 5 in the Company's audited financial statements for the year ended December 31, 2019 for additional disclosures in respect of the Company's significant accounting policies and significant accounting judgements.

At June 30, 2020, the Company did not identify indicators of impairment on any of its CGUs and therefore, an impairment test was not performed. At March 31, 2020, the Company identified indicators of impairment in its PP&E assets from its Dawson CGU attributable to declines in oil prices. The Company calculated the recoverable amount of the Dawson CGU based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate. Based on the assessment as at March 31, 2020, the carrying amount of the Company's PP&E assets in respect of the Dawson GCU was higher than the recoverable amount of C$0.6 million, as such the Company has recognized a PP&E impairment loss of C$0.13 million (2019: C$nil).

The recoverable amount of the Dawson CGU was estimated based upon the higher of the value in use or fair value less costs of disposal. In each case, the value in use methodology was used. In determining value in use, forecasted cash flows from proved plus probable reserves using a before-tax discount rate at 12%, with future development costs as obtained from the independent reserve report dated December 31, 2019, and escalated prices as per Note 6.

(Expressed in Canadian dollars unless otherwise indicated)

8 RIGHT OF USE ASSETS AND LEASES

(a) Right of use assets

C$	Oil and Gas Production	Office Space	Vehicles	Total
Balance, January 1, 2020	135,367	2,275,104	—	2,410,471
Additions	—	—	21,084	21,084
Amortization	(101,526)	(220,171)	(4,029)	(325,726)
Balance, June 30, 2020	**33,842**	**2,054,932**	**17,055**	**2,105,829**

(b) Lease liabilities

C$	As at June 30, 2020	As at December 31, 2019
Statement of Financial Position		
Current lease liabilities	473,017	608,219
Long term lease liabilities	1,894,931	2,055,532
Total lease liabilities	**2,367,948**	2,663,751

	Three months ended June 30,		Six months ended June 30,	
C$	2020	2019	2020	2019
Results of Operations				
Interest expense on lease liabilities (Note 15)	57,126	64,462	113,937	128,923

	Three months ended June 30,		Six months ended June 30,	
C$	2020	2019	2020	2019
Results of Operations				
Total cash flow used for leases	235,000	323,980	448,285	647,960

(Expressed in Canadian dollars unless otherwise indicated)

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

C$	As at June 30, 2020	As at December 31, 2019
Trade payables	**488,526**	770,398
Accrued liabilities	**1,777,418**	1,534,885
Total trade payables and accrued liabilities	**2,265,944**	2,305,283
Capital payables (Note 12)	**4,292,052**	4,408,190
Other payables	**35,744**	385,548
Total	**6,593,740**	7,099,021

All trade payables, accrued liabilities, capital payables and other payables are expected to be settled within one year or are payable on demand. As at June 30, 2020 and December 31, 2019, capital payables are primarily comprised of costs incurred pursuant to the Contract (as defined in Note 12 of the Company's audited financial statements for the year ended December 31, 2019). As at June 30, 2020 and December 31, 2019, other payables are primarily comprised of office renovation and rent inducement expenditures.

Aging analysis of trade payables and accrued liabilities

At June 30, 2020 and December 31, 2019, the aging analysis of trade payables and accrued liabilities based on dates of invoices at the end of the reporting period is as follows:

C$	As at June 30, 2020	As at December 31, 2019
Within 1 month	**1,297,974**	1,714,784
1 to 3 months	**885,495**	590,499
Over 3 months but within 6 months	**82,475**	—
Total	**2,265,944**	2,305,283

(Expressed in Canadian dollars unless otherwise indicated)

10 LONG TERM DEBT

C$	As at June 30, 2020	As at December 31, 2019
Shareholder loans (net)	**2,479,454**	601,846
Subordinated debt	**23,578,601**	21,000,000
Accrued and unpaid interest on subordinated debt	**117,443**	2,578,600
Less: deferred financing costs	**(1,118,720)**	(1,444,801)
Balance, end of period	**25,056,779**	22,735,645
Current	**—**	22,133,799
Long term	**25,056,779**	601,846

(a) Subordinated debt

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 trailing twelve months earnings before interest, taxes and depreciation ("**TTM EBITDA**") have been waived for the remainder of 2020, and will be reinstated starting March 31, 2021. 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 Company further agreed to re-price the 8 million warrants previously issued to the lender (refer to Note 13) and such re-price is subject to the approval of the Stock Exchange and the Company's shareholders.

A new funding covenant was 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. This covenant was satisfied through the procurement of a shareholder loan in the amount of C$2 million on June 2, 2020 (refer to Shareholder loans below). As at June 30, 2020, the Company was in compliance with all covenants and the subordinated debt is no longer in a demand position. As such, it has been reclassified to long term debt as at June 30, 2020. Refer to Note 13 of the audited financial statements for the year ended December 31, 2019 for additional disclosures in respect to the subordinated debt.

The subordinated debt bears interest at 12% per annum, compounded and payable monthly (the "**Base Interest**"). Pursuant to the Restructuring, effective 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. For the three months ended June 30, 2020, the Company's subordinated debt incurred interest at 16% per annum, comprised of the Base Interest, PIK Interest and Penalty Interest.

(Expressed in Canadian dollars unless otherwise indicated)

10 LONG TERM DEBT (Continued)

(a) Subordinated debt (Continued)

The global impact of COVID-19 has resulted in significant declines in global stock markets and a great deal of uncertainty has been forecasted as to the health of the global economy. In addition, there has been a significant drop in the price of oil in the 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.

(b) Shareholder loans

On December 23, 2019, Jixing Energy (Canada) Ltd. ("**Jixing**"), advanced C$0.675 million to the Company (the "**2019 Shareholder Loan**"). Refer to Note 13 of the audited financial statements for the year ended December 31, 2019 for additional disclosures in respect of the 2019 Shareholder Loan. At June 30, 2020, the fair value of the 2019 Shareholder Loan was C$0.63 million assuming an effective interest rate of 4.26% per annum, comprised of 4% base plus 0.26% Canadian Dealer Offered Rate ("**CDOR**"). The fair value change of C$0.03 million from December 31, 2019 was recorded as accretion expense for the six months ended June 30, 2020 (refer to Note 15).

On June 2, 2020, Jixing advanced C$2 million to the Company (the "**2020 Shareholder Loan**"). The proceeds of the 2020 Shareholder Loan will be used for working capital and general corporate purposes. The 2020 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 2020 Shareholder Loan as at June 2, 2020, the Company assumed an effective interest rate of 4% per annum base plus one month CDOR, over the term of the 2020 Shareholder Loan. On this basis the effective rate was 4.28% per annum, comprised of 4% base plus 0.28% CDOR. The residual of C$0.16 million was recorded to Contributed Surplus. At June 30, 2020, the fair value of the 2020 Shareholder Loan was C$1.8 million assuming an effective interest rate of 4.26% per annum, comprised of 4% base plus 0.26% CDOR. The fair value change of C$6,382 from June 2, 2020 was recorded as accretion expense for the six months ended June 30, 2020 (refer to Note 15).

11 DECOMMISSIONING LIABILITIES

C$	**As at June 30, 2020**	As at December 31, 2019
Balance, beginning of period	**2,084,399**	2,192,981
Liabilities settled	**(58,614)**	—
Change in estimate	**191,858**	(141,736)
Accretion expense (Note 15)	**16,562**	33,154
Balance, end of period	**2,234,204**	2,084,399
Current	**205,836**	264,450
Long term	**2,028,368**	1,819,949

(Expressed in Canadian dollars unless otherwise indicated)

11 DECOMMISSIONING LIABILITIES (Continued)

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. At June 30, 2020, 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 June 30, 2020, an average risk free rate of 1.08% (2019: 2.04%) and an inflation rate of 1% (2019: 2%) were used to calculate the decommissioning obligations.

12 OTHER LIABILITIES

C$	**As at June 30, 2020**	As at December 31, 2019
Accrued compensation per Phantom Unit Plan[1]	**309,554**	216,955
Capital payables	**331,992**	456,524
Other payables	**270,167**	139,177
Total	**911,713**	812,656

(1) As defined in Note 19 of the Company's audited financial statements for the year ended December 31, 2019.

At June 30, 2020, the Company has C$4.6 million outstanding under the Contract (refer to Note 9). C$4.3 million is held as current liabilities, and the remaining C$0.3 million as other liabilities. As at June 30, 2020 and December 31, 2019, other payables are primarily comprised of office renovation and rent inducement expenditures.

13 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, 2019	278,286,520	204,366,683
Shares issued for cash	23,600,000	6,000,000
Balance at December 31, 2019 and June 30, 2020	**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 for gross proceeds of HK$35.4 million (C$6.0 million).

(Expressed in Canadian dollars unless otherwise indicated)

13 SHARE CAPITAL (Continued)

(c) Warrants

On August 13, 2018, the Company issued 8 million warrants to the lender the subordinated debt facility 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. Pursuant to the Restructuring, the Company has also agreed to re-price the 8 million share purchase warrants previously issued to the lender. This re-pricing is subject to the approval of the Stock Exchange and the Company's shareholders. 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 Company's shareholders.

(d) Stock options and share-based expenses

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 (the "**Option Plan**"). The Option Plan is a rolling plan and provides that the number of common shares issuable under the Option Plan, together with all of the Company's other previously established or proposed share compensation arrangements, may not exceed 10% of the total number of issued and outstanding common shares, on a non-diluted basis, as of the date on which the Option Plan is approved by the shareholders. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company's stock on the date of grant and the option's maximum term is ten years. Options granted vest 1/3 on each of the first, second and third anniversaries from the date of grant.

HK$ except number of options amounts	Number of Options	Exercise Price
Balance, January 1, 2020	—	—
Granted	3,780,000	$0.52
Balance, June 30, 2020	**3,780,000**	**$0.52**

The weighted average trading price of the Company's common shares was HK$0.57 per share for the six months ended June 30, 2020. The closing trading price of the Company's common shares immediately before the date on which the stock options were granted was HK$0.50 per share.

The following table summarizes stock options outstanding at June 30, 2020:

Exercise Price (HK$)	Amount Outstanding at Period End	Remaining Contractual Life	Weighted Average Exercise Price (HK$)	Amount Exercisable at Period End	Weighted Average Exercise Price (HK$)
$0.52	3,780,000	4.86 years	$0.52	—	—

(Expressed in Canadian dollars unless otherwise indicated)

13 SHARE CAPITAL (Continued)

(d) Stock options and share-based expenses (Continued)

The fair value of options granted during the six month period ended June 30, 2020 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	Six months ended June 30, 2020
Exercise price per option	**HK$0.52**
Risk-free interest rate	**0.68%**
Estimated hold period prior to exercise	**5**
Expected volatility	**158.3%**
Forfeiture rate	**—**
Dividend per share	**—**
Fair value per option	**HK$0.46**
HK$: C$ foreign exchange rate	**0.18**
Fair value per option	**C$0.08**

14 REVENUE

	Three months ended June 30,		Six months ended June 30,	
C$	**2020**	2019	**2020**	2019
Commodity sales from production				
Natural gas, natural gas liquids and condensate	**2,710,384**	1,592,156	**5,683,953**	6,185,409
Crude oil	**29,320**	489,999	**284,794**	962,057
Total commodity sales from production	**2,739,704**	2,082,155	**5,968,747**	7,147,466
Trading (loss) revenue				
Natural gas trading revenue	**33,907**	381,710	**47,651**	434,741
Natural gas trading cost	**(34,745)**	(133,495)	**(48,733)**	(216,033)
Total trading (loss) revenue	**(838)**	248,215	**(1,082)**	218,708

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.

(Expressed in Canadian dollars unless otherwise indicated)

14 REVENUE (Continued)

For the three and six month periods ended June 30, 2020, the Company's customer base includes two customers (2019: two customers), with whom transactions have exceeded 10% of the Company's revenues. For the three month period ended June 30, 2020, revenues from sales to these customers amounted to C$2.4 million (2019: C$1.8 million). For the six month period ended June 30, 2020, revenues from sales to these customers amounted to C$5.4 million (2019: C$6.4 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.

15 FINANCE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
C$	**2020**	2019	**2020**	2019
Interest expense and financing costs:				
Subordinated debt (Note 10)	**1,100,999**	834,840	**1,832,490**	1,584,329
Right of use assets and leases (Note 8)	**57,126**	64,462	**113,937**	128,923
Termination fee[(1)]	**—**	—	**352,163**	—
Other financing costs and bank charges	**32,056**	27,840	**32,056**	27,840
Accretion expenses:				
Decommissioning liabilities (Note 11)	**(4,914)**	(2,841)	**16,562**	31,346
Shareholder loans (Note 10)	**20,836**	—	**38,556**	—
Amortization of debt issuance costs	**125,541**	182,684	**251,082**	251,082
Total finance expenses	**1,331,644**	1,106,985	**2,636,845**	2,023,520

(1) HK$1.0 million termination fee incurred following the Company's cancellation of a warrant subscription agreement with an arms' length subscriber on January 24, 2020. Pursuant to the terms of the warrant subscription agreement, a second payment of HK$1.0 million will be due to the subscriber by February 28, 2021.

16 INCOME TAXES

The blended statutory tax rate was 25.5% for the three and six month periods ended June 30, 2020 (2019: 26.5%). In the second quarter of 2019, the Alberta corporate income tax rate was reduced from 12 percent to 8 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. 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 due to changes in unrecognized deferred tax assets. As at June 30, 2020, the Company has approximately C$98 million of deductible temporary differences in PP&E and E&E assets, decommissioning liabilities, share issue costs, non-capital losses and others. As at June 30, 2020, the Company has approximately C$150 million of tax deductions, which includes loss carry forwards of approximately C$24 million which begin expiring in 2037.

(Expressed in Canadian dollars unless otherwise indicated)

17 LOSS PER SHARE

C$ except share amounts	Three months ended June 30, 2020	2019	Six months ended June 30, 2020	2019
Loss and comprehensive loss	**(1,569,005)**	(10,743,765)	**(4,862,033)**	(12,753,683)
Weighted average number of common shares	**301,886,520**	278,286,520	**301,886,520**	284,448,742
Loss per share — basic and diluted	**(0.01)**	(0.04)	**(0.02)**	(0.04)

There were 3.78 million options and 8 million warrants excluded from the weighted-average share calculations for the three and six month periods ended June 30, 2020 because they were anti-dilutive (three and six months ended June 30, 2019: 8 million warrants excluded).

18 DIVIDEND

The Board did not recommend the payment of a dividend for the three and six month periods ended June 30, 2020 and 2019.

19 RELATED PARTY TRANSACTIONS, PERSONNEL COSTS AND REMUNERATION POLICY

(a) Remuneration policy

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.

(b) Transactions with key management personnel

Key management compensation for the three and six months ended June 30, 2020 totaled C$0.4 million and C$1.0 million respectively (2019 three months: C$0.5 million, 2019 six months: C$1.0 million). During the three and six months ended June 30, 2020, the Company granted 3.78 million stock options to key management personnel. Share-based compensation expense of C$0.03 million was recognized for the three and six month periods ended June 30, 2020 (2019: C$nil) in respect of this grant, using the fair value assessment detailed in Note 13.

19 RELATED PARTY TRANSACTIONS, PERSONNEL COSTS AND REMUNERATION POLICY (Continued)

(c) Transactions with directors

Directors' Fees and Phantom Unit Plan

Director compensation for the three and six month periods ended June 30, 2020 totaled C$0.02 million and C$0.15 million respectively (2019 three months: C$0.06 million, 2019 six months: C$0.12 million). Total compensation for the six months ended June 30, 2020 was comprised of cash payments of C$0.06 million and C$0.1 million accrued pursuant to the Phantom Unit Plan as defined in Note 19 of the Company's audited financial statements for the year ended December 31, 2019 (2019: C$0.06 million cash and C$0.06 million accrued phantom units). As at June 30, 2020 the total accrued compensation under the Phantom Unit Plan was C$0.3 million (2019: C$0.40 million).

Shareholder Loans

On June 2, 2020, Jixing advanced C$2 million to the Company (the "**2020 Shareholder Loan**"). The proceeds of the 2020 Shareholder Loan will be used for working capital and general corporate purposes. The 2020 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. At June 30, 2020, the 2020 Shareholder Loan is carried at its deemed fair value of C$1.8 million (refer to Note 10).

Save as disclosed above, all other transactions with directors are unchanged from those disclosed in Note 26 of the audited financial statements for the year ended December 31, 2019.

20 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 June 30, 2020, the Company's accounts receivables consisted of C$0.8 million (December 31, 2019: C$1.7 million) due from purchasers of the Company's crude oil and natural gas and C$0.1 million (December 31, 2019: C$0.07 million) 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 June 30, 2020. The Company has also not written off any receivables during the six months ended June 30, 2020 as all 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 June 30, 2020 and 2019, all of the trade receivables were less than 90 days old.

(Expressed in Canadian dollars unless otherwise indicated)

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they 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).

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.

The following are the contractual maturities of financial liabilities at June 30, 2020:

C$	Total	1 year or less	1–3 years	4+ years
Accounts payable and accrued liabilities	6,593,740	6,593,740	—	—
Other liabilities	911,713	—	911,713	—
Lease liabilities	2,367,947	473,017	992,859	902,072
Shareholder loans[1]	2,675,000	—	2,675,000	—
Subordinated debt[2]	23,696,044	—	23,696,044	—
Total	**36,244,445**	**7,066,757**	**28,275,616**	**902,072**

(1) Gross value of shareholder loan as per Note 10.

(2) Subordinated debt plus accrued and unpaid interest as per Note 10.

(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 six months ended June 30, 2020 and 2019.

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(c) Market risk (Continued)

Interest rate risk

As at June 30, 2020, the Company's debts are comprised of shareholder's loans and subordinated debts, both at fixed interest rates. At June 30, 2020, 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 three and six month periods ended June 30, 2020.

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 June 30, 2020, the Company held HK$0.3 million (C$0.05 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, shareholder loans, 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.

(Expressed in Canadian dollars unless otherwise indicated)

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(d) Capital management (Continued)

The following represents the capital structure of the Company:

C$	**As at June 30, 2020**	As at December 31, 2019
Long term debt (excluding deferred financing costs as per Note 10)	**25,056,779**	601,846
Other liabilities	**911,713**	812,656
Lease liabilities	**2,367,948**	2,663,751
Net working capital deficit	**4,110,743**	26,646,363
Net debt	**32,447,183**	30,724,616
Shareholders' equity	**18,998,042**	23,668,325
Total	**51,445,225**	54,392,941

(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 available 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 June 30, 2020, 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 three and six months ended June 30, 2020, the Company incurred fees totaling C$0.03 million (2019 three and six months: C$0.03 million) in relation to the PSG facility.

(Expressed in Canadian dollars unless otherwise indicated)

21 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 June 30, 2020:

C$	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Transportation commitment	38,154,090	6,801,225	12,515,417	12,301,289	6,536,159
PSG facility (Note 20)	1,800,158	1,800,158	—	—	—
Total	**39,954,248**	**8,601,383**	**12,515,417**	**12,301,289**	**6,536,159**

Transportation commitment

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

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

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

Commodity contracts

As at June 30, 2020, the Company has entered into the following fixed price physical commodity contracts 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
Natural gas	May 1, 2020 to October 31, 2020	2,000 GJ/day	C$2.085 per GJ

22 SUBSEQUENT EVENT

COVID-19

The global impact of COVID-19 has resulted in significant declines in global stock markets and a great deal of uncertainty has been forecasted 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.