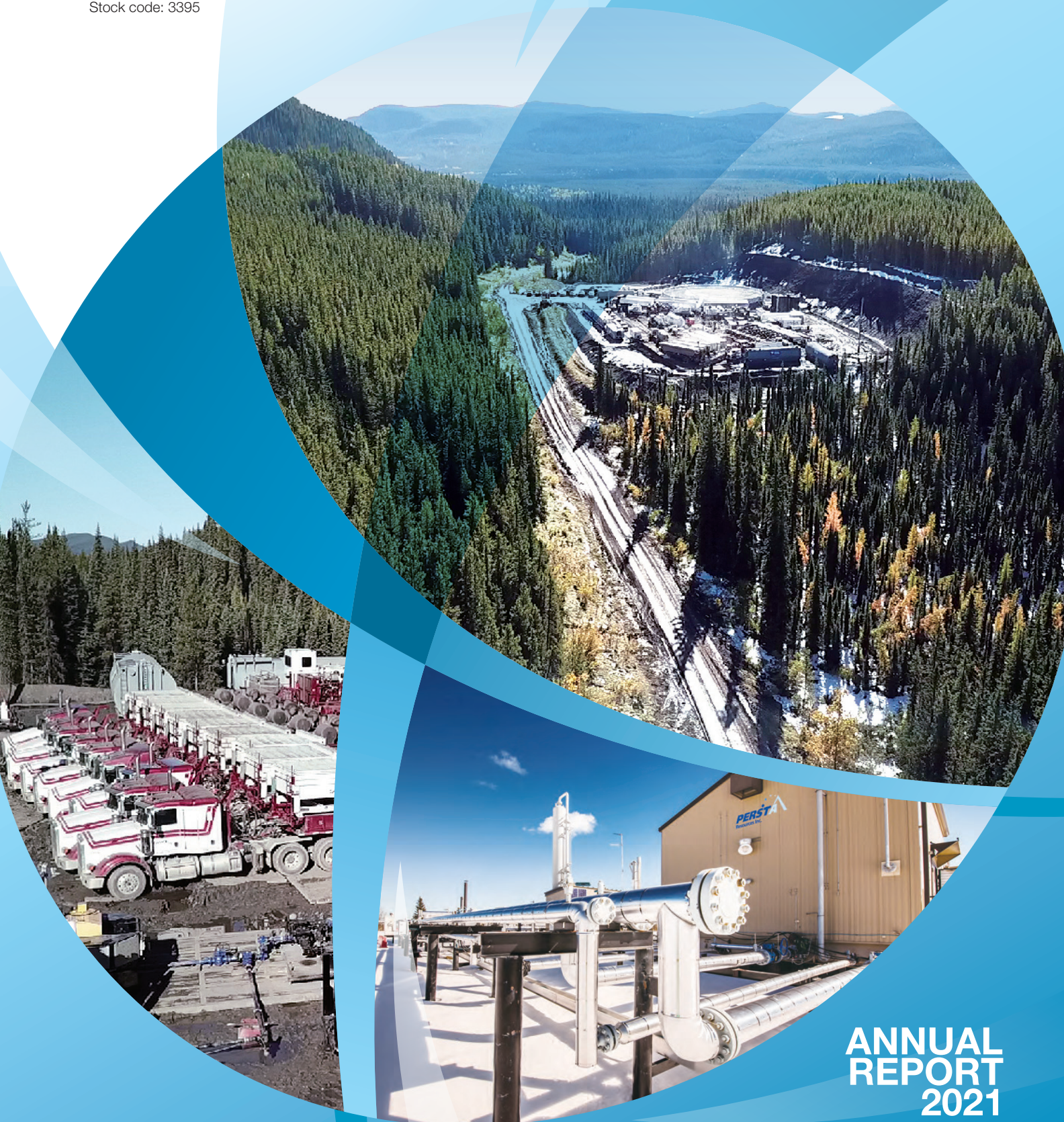




Persta Resources Inc.

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



**ANNUAL
REPORT
2021**

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



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FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL HIGHLIGHTS

(Expressed in Canadian dollars)

<i>C\$'000 except per share and boe</i>	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Production revenue	6,566	4,309	52%	21,480	13,269	62%
Net trading revenue (loss)	(12)	11	(210%)	(11)	9	(224%)
Operating netback ¹	1,951	(44)	4,485%	4,423	1,652	168%
Loss per share (basic and diluted)	0.00	0.04	(90%)	0.01	0.07	(81%)
Daily average sales volumes (boe/d)	2,159	2,631	(18%)	2,268	2,406	(6%)

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

ASSETS AND LIABILITIES

<i>C\$'000</i>	As at December 31,					
	2021	2020	2019	2018	2017	2016
Total assets	52,982	44,667	59,064	103,582	111,091	91,431
Total liabilities	(47,968)	(39,506)	(35,395)	(35,521)	(36,398)	(40,220)
Total net assets	5,014	5,161	23,668	68,061	74,693	51,211
Share capital	215,922	213,427	210,367	204,367	204,367	169,247
Warrants	647	647	647	647	—	—
Contributed surplus	2,524	358	74	—	—	—
Accumulated deficit	(214,079)	(209,270)	(187,419)	(136,953)	(129,674)	(118,036)
Total equity	5,014	5,161	23,668	68,061	74,693	51,211

FIVE-YEAR FINANCIAL SUMMARY

SELECTED ANNUAL INFORMATION

		Year ended December 31,			
	2021	2020	2019	2018	2017
Average Daily Production					
Natural gas (mcf/d)	12,416	13,341	10,465	12,521	15,879
Crude oil (bbls/d)	77	45	80	75	70
NGLs and condensate (bbls/d)	96	94	83	91	140
Total production (boe/d)	2,243	2,363	1,907	2,208	2,856
Average Daily Trading					
Natural gas (boe/d)	25	44	226	190	194
Total Sales Volume (boe/d)	2,268	2,406	2,133	2,398	3,050
Financial					
<i>C\$'000s except share amounts</i>					
Production revenue	21,480	13,269	13,627	15,364	21,443
Net trading revenue	(11)	9	630	661	1,241
Royalties	(2,663)	(751)	(2,447)	(1,164)	(2,793)
Operating costs	(14,383)	(10,874)	(7,593)	(5,353)	(5,746)
Operating netback ¹	4,423	1,652	4,217	9,509	13,645
Net loss	(4,809)	(21,851)	(50,466)	(7,279)	(11,637)
Net working capital ²	(22,740)	(29,938)	(26,646)	(1,646)	(22,252)
Total assets	52,982	44,667	59,064	103,582	111,091
Long term debt ²	(17,355)	(1,886)	(602)	(23,064)	–
Capital expenditures ³	8,623	1,932	1,315	5,415	28,719
Loss per share (basic and diluted)	0.01	0.07	0.17	0.03	0.04

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

(2) Net working capital consists of current assets less current liabilities. As at December 31, 2020, 2019 and 2017, net working capital includes C\$24 million of long term debt which has been reclassified as current, as the Company was not in compliance with certain covenants of its subordinated debt facility during the year. As at December 31, 2021, net working capital includes C\$3 million shareholder debt which matured at December 31, 2021 and C\$5 million of subordinated debt payments due in 2022.

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

RESERVES SUMMARY

As at December 31, 2021	Reserve Composition (%)		
	Total Mboe	Natural Gas	Other ¹
Gross Proved Reserves	5,092	94%	6%
Gross Proved plus Probable Reserves	6,937	94%	6%

As at December 31, 2020	Reserve Composition (%)		
	Total Mboe	Natural Gas	Other ¹
Gross Proved Reserves	5,053	94%	6%
Gross Proved plus Probable Reserves	7,219	94%	6%

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

The reserves data provided in this annual report is based upon the report of GLJ effective December 31, 2021, with an execution date of March 4, 2022 (the “**GLJ Report**”). GLJ is an independently qualified reserves evaluator and auditor based in Calgary, Alberta, Canada. The estimate of Gross Proved and Probable Reserves as at December 31, 2021 and 2020 assumes forecast prices and costs as at the execution date of the GLJ Report.

2021 was a transformative year for Persta Resources Inc. (“**Persta**” or the “**Company**”). Commodity prices surged as the global economy started to recover from the COVID-19 pandemic. The price for natural gas in Western Canada achieved 7-year highs, and is forecast to remain strong for the remainder of 2022 and through 2023 on expectations of continued strong demand. As the spot price for Western Canadian gas changes daily, there is no guarantee the Company will sell its gas in the future for currently forecast prices.

Strong commodity prices were reflected in the Company's production revenues for the year ended December 31, 2021 totaling C\$21.5 million, approximately 62% greater than 2020 production revenues of C\$13.3 million.

In September 2021, we initiated drilling of a new well in our Basing area which was completed and commenced de-watering in mid-December 2021, recovering the fluid which was injected into the well during its completion. As water impedes the flow of gas, production is anticipated to increase as completion fluid is recovered from the well. To capitalize on the strong price environment, Persta is evaluating additional targets which it would look to commence drilling on during 2022 and 2023, subject to availability of capital.

During 2021, Persta arranged two equity placings to issue a total of 71 million shares at HK\$0.80 per share for gross proceeds of HK\$56.8 million (C\$9.1 million). The first closings were completed in December 2021 whereby 36 million shares were issued for gross proceeds of HK\$28.8 million (C\$4.61 million). The second and final closing of 35 million shares for gross proceeds of HK\$56.8 million (C\$4.48 million) is anticipated on or before April 30, 2022.

LOOKING AHEAD

Following the outbreak of the recent conflict in Ukraine, in light of the potential restrictions on the import of crude oil from Russia by the United States and a number of European countries and other oil related sanctions on Russia, global oil and gas prices have soared and achieved record highs in a number of countries amid fears of global economic uncertainty. As at the date of this statement, Canada was experiencing a major spike in oil and gas prices, and there was a high likelihood that some Canadian oil and gas companies might be requested to boost their domestic production to counteract any possible shortages of oil and gas supply in the local market.

As Persta's revenue is primarily generated from oil and gas production and natural gas trading, we anticipate that these factors will likely have a positive impact on our operations and ability to raise financing in the near future on favourable terms.

During 2022, Persta intends to increase production from its existing wells through workovers and optimizations, and resume production from wells that remained shut-in following onset of the COVID-19 pandemic, which should increase both revenues and cashflow if commodity prices remain in line with current forecasts.

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

Yongtan Liu

Chairman

Calgary, Canada, April 19, 2022

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Below are the brief profiles of the Directors and senior management of the Company as at December 31, 2021 and the date of this annual report.

DIRECTORS

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

Name	Age	Position	Date of Appointment as Director
Executive Directors			
Mr. Yongtan Liu	67	Chairman of the Board and executive Director	December 2019
Mr. Pingzai Wang	55	Chief Executive Officer and executive Director	July 2020
Independent non-executive Directors			
Mr. Richard Dale Orman	73	Independent non-executive Director	February 2016
Mr. Peter David Robertson	70	Independent non-executive Director	February 2016
Mr. Larry Grant Smith	68	Independent non-executive Director	December 2020

Executive Directors

Mr. Yongtan Liu, aged 67, is the executive Director, the Chairman of the Board, the Chairman of the nomination Committee and a member of the remuneration Committee of the Board. Mr. Liu was appointed to the Board on December 18, 2019.

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

Mr. Pingzai Wang (王平在), aged 55, was the Senior Vice President, Exploration in charge of exploration activities of the Company until his resignation in December 2019. On March 4, 2020, Mr. Wang was appointed as the Chief Executive Officer of the Company, and on July 1, 2020, Mr. Wang was appointed to the Board as executive Director of the Company.

Mr. Wang joined the Company in October 2006 and served as Vice President, Exploration of the Company since April 2008. Mr. Wang has been involved in natural gas and oil exploration projects since joining the Company.

Mr. Wang has over 31 years of experience in the natural gas and oil industry. He began his professional career in various oil and gas operations of China National Petroleum Corporation ("**CNPC**") in 1988 and has been the Senior Engineer since 1998. Mr. Wang was the Geologist, Chief Geologist and Exploration Manager of Daqing Exploration Company of Daqing Oilfield Company Limited (大慶油田有限責任公司), a subsidiary of CNPC for the period from July 1988 to June 2002. Mr. Wang is experienced in energy exploration activities and was involved in several major energy exploration and development projects, including oil and gas projects in Hailar Basin (Inner Mongolia, China), Tarim Basin (Xinjiang, China) and Indonesian projects (South Sumatra, Java and Irian Jaya, etc.) from 1988 to 2006 during his employment under CNPC. His expertise in exploration seismic interpretation and prospects generation through his experience in CNPC has contributed substantially to the growth of the Company.

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

Independent Non-executive Directors

Mr. Richard Dale Orman, aged 73, is an independent non-executive Director, the Chairman of the remuneration committee and a member of the audit and risk committee of the Board. Mr. Orman is a Corporate Director and Principal of PLM Consultants Ltd.

Mr. Orman is an Independent Non-executive Director, Chairman of the Remuneration Committee and a member of the Audit and Risk Committee of the Board. Mr. Orman is currently Acting Chief Executive Officer and Director of Surmont Energy Ltd. and Chairman of CannaPharmaRX (OTC-USA).

From 1986–1993, he was elected as Member of the Alberta Legislature and served as Minister of Energy in 1989–1992.

Mr. Orman has more than 41 years of experience in the oil and natural gas and petroleum industry. Between 1993 and 2021 he served on a number of boards including Chairman and CEO of Kappa Energy Inc (TSXV), Director of Czar Resources Ltd.(TSE), Director of Independent Energy Ltd.(TSE), Director of Vanguard Oil Corp., Executive Vice Chairman and Director of Exceed Energy Inc., (TSX), Lead Director of Daylight Energy Ltd., (TSX), and Director of Sinopec Daylight Ltd. He is Principal of PLM Consultants Ltd., a Calgary based advisory services company established in 1981.

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

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Peter David Robertson, aged 70, is an independent non-executive Director, Chairman of the audit and risk committee and member of the nomination committee of the Board. Mr. Robertson was appointed as the Lead Director of the Company effective as of December 18, 2019, focusing on best practice governance and serving as a bridge between the chair of Board and senior management.

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

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

Mr. Larry Grant Smith, aged 68, is an independent non-executive director and member of the remuneration, nomination and audit and risk committees of the Board.

Mr. Smith has substantial experience in the oil and gas industry in Western Canada, especially in drilling, completions, production operations and facility construction. Mr. Smith is currently an advisor to Crest Consultants Partnership, which provides project management, engineering and field supervision services to the petroleum industry in Alberta. Crest Consultants Partnership is a successor to Crest Energy Consultants Inc., a Calgary-based company Mr. Smith founded in 1989.

Mr. Smith has been a Professional Engineer of the Association of Professional Engineers and Geoscientists of Alberta (APEGA) since July 1979. Mr. Smith graduated from University of Wyoming, United States in May 1977 where he obtained a bachelor's of science degree (honors) in petroleum engineering. Mr. Smith also obtained a diploma in petroleum technology from the Southern Alberta Institute of Technology, Canada in 1974.

SENIOR MANAGEMENT

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

Name	Age	Year Joined	Position
Mr. Pingzai Wang (王平在)	55	2006	Vice President, Exploration, appointed Chief Executive Officer on March 4, 2020
Mr. Binyou Dai (代斌友)	52	2009	Vice President, Engineering, appointed Chief Operating Officer on May 1, 2020
Mr. Jesse Meidl	46	2018	Chief Financial Officer, appointed joint Company secretary on December 4, 2020

Mr. Pingzai Wang (王平在), aged 55, was the Senior Vice President, Exploration in charge of exploration activities of the Company until his resignation in December 2019. On March 4, 2020, Mr. Wang was appointed as the Chief Executive Officer of the Company, and on July 1, 2020, Mr. Wang was appointed to the Board as executive Director of the Company.

Please see his biographical details in the paragraph headed “*Executive Directors*” in this section.

Mr. Binyou Dai (代斌友), aged 52, joined the Company in June 2009, was appointed as Vice President, Engineering on March 31, 2014, and was appointed Chief Operating Officer on May 1, 2020. Mr. Dai has over 29 years of experience in the natural gas and oil industry and has been involved in the natural gas and oil engineering and facilities development of the Company.

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

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

Mr. Jesse Meidl, aged 46, is the Chief Financial Officer of the Company. Mr. Meidl joined the Company in January 2018 and is responsible for financial management of the Company. On December 4, 2020, Mr. Meidl was appointed as joint company secretary of the Company. Mr. Meidl has over 23 years of corporate finance, accounting and advisory experience in international oil and gas exploration, production and services. Prior to joining Persta, he was the Finance Director and Chief Financial Officer of Caithness Petroleum Limited based in London, United Kingdom, and previously worked as an investment banker specializing in corporate finance and advisory in the United Kingdom and Canada with Thomas Weisel Partners and Westwind Capital Partners. Mr. Meidl was the Chief Financial Officer of Arsenal Energy Inc. (a predecessor company to Prairie Provident Resources Inc.) between 2004 and 2007.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") of Persta Resources Inc. ("**Persta**" or the "**Company**") should be read in conjunction with the Company's audited financial statements and notes thereto for the years ended December 31, 2021 and 2020 (the "**Financial Statements**"). All amounts in this MD&A are stated in thousands of Canadian dollars ("**C\$'000**") unless indicated otherwise.

FORWARD LOOKING INFORMATION

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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.

During 2021, commodity prices surged as the global economy started to recover from the COVID-19 pandemic. The price for natural gas in Western Canadian achieved 7-year highs, and is forecast to remain strong for the remainder of 2022 and through 2023 on expectations of continued strong demand. As the spot price for Western Canadian gas changes daily, there is no guarantee the Company will sell its gas in the future for currently forecast prices.

In September 2021, the Company initiated drilling of a new well in its Basing area which was completed and commenced de-watering in mid-December 2021, recovering the fluid which was injected into the wells during their completion. As water impedes the flow of gas, production is anticipated to increase as completion fluid is recovered from the well. To capitalize on the strong price environment, the Company is evaluating additional targets which it would look to commence drilling on during 2022 and 2023, subject to availability of capital.

Selected Annual Information

		Year ended December 31,			
	2021	2020	2019	2018	2017
Average Daily Production					
Natural gas (mcf/d)	12,416	13,341	10,465	12,521	15,879
Crude oil (bbls/d)	77	45	80	75	70
NGLs and condensate (bbls/d)	96	94	83	91	140
Total production (boe/d)	2,243	2,363	1,907	2,208	2,856
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Natural gas (boe/d)	25	44	226	190	194
Total Sales Volume (boe/d)	2,268	2,406	2,133	2,398	3,050
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Production revenue	21,480	13,269	13,627	15,364	21,443
Net trading revenue	(11)	9	630	661	1,241
Royalties	(2,663)	(751)	(2,447)	(1,164)	(2,793)
Operating costs	(14,383)	(10,874)	(7,593)	(5,353)	(5,746)
Operating netback ¹	4,423	1,652	4,217	9,509	13,645
Net loss	(4,809)	(21,851)	(50,466)	(7,279)	(11,637)
Net working capital ²	(22,740)	(29,938)	(26,646)	(1,646)	(22,252)
Total assets	52,982	44,667	59,064	103,582	111,091
Long term debt ²	(17,355)	(1,886)	(602)	(23,064)	—
Capital expenditures ³	8,623	1,932	1,315	5,415	28,719
Loss per share (basic and diluted)	0.01	0.07	0.17	0.03	0.04

- (1) Operating netback is defined as revenue less royalties, trading cost and operating costs. Operating netback is a non-IFRS financial measure. See "Non-IFRS Financial Measures" for further information.
- (2) Net working capital consists of current assets less current liabilities. As at December 31, 2020, 2019 and 2017, net working capital includes C\$24 million of long term debt which has been reclassified as current, as the Company was not in compliance with certain covenants of its subordinated debt facility during the year. As at December 31, 2021, net working capital includes C\$3 million shareholder debt which matured at December 31, 2021 and C\$5 million of subordinated debt payments due in 2022.
- (3) Capital expenditures consist of total expenditures for property, plant and equipment plus exploration and evaluation assets, excluding changes in non-cash working capital.

MANAGEMENT'S DISCUSSION AND ANALYSIS

5 Year Annual Summary

Over the past 5 years, the Company's total production has dropped reflecting natural declines, as the Company elected to defer new well drilling following the collapse of the market price for natural gas in western Canada in 2017.

In 2021 commodity prices have strengthened as reflected in the Company's 2021 production revenue achieving 5 year highs, despite lower production compared to previous years. In 2019 operating costs increased as the Company's gas transport obligations commenced in the fourth quarter of 2018. These obligations are fixed and provide Persta with transport capacity of up to 110 MMcf/d. Subsequent to the end of the year, the Company transferred 47 MMcf/d of its FT-R obligations to another issuer effective April 1, 2022. In 2020 operating costs increased with the start of production at Voyager and commencement of the Jixing Gas Handling and Voyager Compression agreements (refer to Note 26 of the Financial Statements).

The Company's 2021 net loss was significantly lower than the previous two years, reflecting higher revenues and partial recovery of the impairment losses the Company booked in 2020 and 2019. These impairment losses were 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. In 2021 the value of the Company's assets increased commensurate with the increase in commodity prices allowing a partial recovery of the previously booked losses.

In 2021 the Company's capital expenditures are primarily comprised of costs associated with the drilling, completion and tie-in of a new well at its Basing area.



Selected Quarterly Information

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Daily Average Production								
Natural gas (mcf/d)	11,800	11,344	12,607	13,518	14,158	12,977	14,357	14,490
Crude oil (bbls/d)	80	81	76	65	78	56	—	48
NGLs and condensate (bbls/d)	90	99	107	90	106	85	92	92
Total production (boe/d)	2,137	2,071	2,284	2,408	2,544	2,304	2,485	2,554
Daily Average Trading								
Natural gas (boe/d)	22	34	33	10	88	42	30	12
Daily Average Sales (boe/d)	2,159	2,105	2,317	2,418	2,631	2,346	2,515	2,566
Financial								
<i>C\$'000s except share amounts</i>								
Production revenue	6,566	5,051	4,909	4,954	4,309	2,991	2,740	3,229
Net trading revenue (loss)	(12)	(1)	—	2	11	(2)	(1)	—
Royalties	(1,193)	(532)	(75)	(863)	(609)	(202)	847	(788)
Operating costs	(3,409)	(3,607)	(3,742)	(3,624)	(3,756)	(3,534)	(1,824)	(1,760)
Operating netback ¹	1,951	912	1,091	469	(44)	(747)	1,761	681
Net income (loss)	(1,549)	1,507	(1,925)	(2,842)	(13,009)	(3,460)	(1,569)	(3,813)
Net working capital ²	(22,740)	(12,572)	(8,153)	(31,512)	(29,938)	(5,135)	(4,111)	(28,122)
Total assets	52,982	47,898	42,205	43,425	44,667	54,601	56,162	57,283
Capital expenditures ³	5,489	2,918	126	91	1,349	400	128	20
Income (loss) per share (basic & diluted)	(0.00)	0.00	(0.01)	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)

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

(2) Net working capital consists of current assets less current liabilities. As at December 31, 2020, and March 31, 2021, net working capital includes C\$24 million of long term debt which has been reclassified as current, as the Company was not in compliance with certain covenants of its subordinated debt facility. As at December 31, 2021, net working capital includes C\$3 million shareholder debt which matured at December 31, 2021 and C\$5 million of subordinated debt payments due in 2022.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Quarterly Information Summary

The Company's total production is impacted by seasonal fluctuations experienced in western Canada. During the Canadian winter (October–March), demand for gas is highest as it is used for heating and power generation. The market price for natural gas is cyclical and follows demand, with prices generally strongest in the winter, and weakest in summer. The Company's revenues have been strongest during the first and fourth quarters of the year, and weakest in the second and third quarters, reflecting the demand cycle.

Commodity prices strengthened throughout 2021, reflecting the increased quarterly revenue realized from declining production experienced over the year. In the third quarter of 2020, operating costs increased with the start of production at Voyager and commencement of the Jixing Gas Handling and Voyager Compression Agreements (refer to Note 26 of the Financial Statements).

The Company's higher net loss experienced in the fourth quarter of 2020 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. In 2021 the value of the Company's assets increased commensurate with the increase in commodity prices allowing a partial recovery of the previously booked losses in the third quarter of the year which resulted in quarterly net income of C\$1.5 million.

RESULTS OF OPERATIONS

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.

Daily Production and Sales Volumes

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Production						
Natural gas (mcf/d)	11,800	14,158	(17%)	12,416	13,341	(7%)
Oil (bbl/d)	80	78	3%	77	45	72%
NGLs (bbl/d)	29	32	(8%)	29	30	(5%)
Condensate (bbl/d)	61	74	(18%)	68	64	6%
Total production (boe/d)	2,137	2,544	(16%)	2,243	2,363	(5%)
Trading						
Natural gas (mcf/d)	130	526	(75%)	150	261	(43%)
Total trading (boe/d)	22	88	(75%)	25	44	(43%)
Total sales volume (boe/d)	2,159	2,631	(18%)	2,268	2,406	(6%)

Total sales volume for the three months and year ended December 31, 2021 was 18% and 6% lower respectively, than the comparative periods in 2020 attributable to natural declines.

In the prior year, during periods of low natural gas prices, the Company strategically shut-in in its production and purchased gas on the open market to meet its forward sales obligations. The Company did not enter into any forward sales contracts during 2021, and traded gas on days when it would not be able to deliver its nominated volume. As nominations are made daily, a shortfall experienced on a given day can be rectified the next day adjusting the nomination to reflect changes in production. As the Company's production is stable, shortfalls are infrequent as demonstrated by the small quantity of gas traded in 2021 comprising only 1% of the total gas sold during the year.

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. This change is evidenced in 2021, as NGL and condensate production on an absolute basis was consistent with the prior year, despite the decline in natural gas over the same period.

Oil production for the three months ended December 31, 2021 was consistent with the same period in 2020. Oil production for the year ended December 31, 2021 was 72% higher than 2020, as the Company shut-in production in March 2020 in response to the collapse in oil prices following the onset of the COVID-19 pandemic. The wells remained shut-in through the second quarter of 2020, and resumed production in July 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenue

C\$'000s	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Production						
Natural gas	5,276	3,563	48%	17,010	11,095	53%
Crude oil	668	331	102%	2,089	849	146%
NGLs	81	57	41%	322	153	110%
Condensate	542	358	51%	2,060	1,172	76%
Total production revenue	6,566	4,309	52%	21,480	13,269	62%
Trading						
Natural gas trading revenue	52	116	(55%)	196	213	(8%)
Natural gas trading cost	(64)	(105)	(39%)	(207)	(204)	2%
Total trading revenue (loss)	(12)	11	(210%)	(11)	9	(224%)
Other income	17	97	(82%)	48	213	(77%)
Total revenue	6,571	4,417	49%	21,518	13,491	59%

Production revenue for the three months and year ended December 31, 2021 increased 52% and 62% respectively over comparative periods in 2020 as stronger commodity pricing offset the declines in production experienced in the current year. Crude oil prices have strengthened materially in 2021, as demand has increased as the global economy started to recover from the COVID-19 pandemic. Pricing for NGL and condensate, which are correlated to crude oil, improved as well.

The Company experienced a small trading loss for both the three months and year ended December 31, 2021, in contrast with the small gain realized in the comparative periods in 2020, reflecting the increased volatility in gas prices in the current year.

The decrease in other income for both the three months and year ended December 31, 2021 over the same periods in 2020 is attributable to payroll subsidies received from the Government of Canada for COVID-19 relief in 2020.

Commodity prices

	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Natural gas (C\$/mcf)						
Average market price (AECO)	4.79	2.77	73%	3.57	2.19	63%
Average forward sales price	—	2.00	(100%)	—	1.98	(100%)
Average trading price	4.35	2.41	80%	3.59	2.23	61%
Average trading cost price	5.35	2.17	146%	3.79	2.14	77%
Average sales price	4.73	2.65	79%	3.65	2.21	65%
Crude oil (C\$/bbl)						
Average market price						
(Edmonton Par)	91.82	50.12	83%	79.71	45.28	76%
Average sales price	85.22	46.14	85%	74.10	51.04	45%
Sales/market differential	(7%)	(9%)		(7%)	11%	
NGLs (C\$/bbl)						
Average market price						
(Propane/Butane)	52.67	16.35	222%	47.37	15.27	210%
Average sales price	27.55	19.27	43%	30.90	13.99	121%
Sales/market differential	(48%)	15%		(35%)	(9%)	
Condensate (C\$/bbl)						
Average market price						
(Pentane Plus)	96.20	53.33	80%	85.28	48.93	74%
Average sales price	97.68	52.73	85%	83.33	50.02	67%
Sales/market differential	2%	(1%)		(2%)	2%	

Realized gas sales price for the three months ended December 31, 2021 averaged C\$4.73/mcf, 79% higher than the same period in 2020. Realized gas sales price for the year ended December 31, 2021 averaged C\$3.65/mcf, 65% higher than the prior year. The increase in realized pricing throughout 2021 is attributable to significantly stronger AECO gas market pricing.

In the prior year, during periods of extreme weakness in the AECO market, the Company shut-in its production and traded gas on the spot market to meet its forward sales obligations. The Company did not enter into any forward sales contracts during 2021, trading gas as required to meet shortfalls in its daily production nomination. The average trading price is a function of the gains or losses realized on the quantity and price of gas traded over a given time and therefore not directly comparable to prior periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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. Additionally, the quantity of butane and propane produced by a well can change over time. Generally the more butane produced, the higher the realized price for NGLs. For the three months and year ended December 31, 2021, realized NGL prices were 48% and 35% lower than the market price respectively, as the Company's NGLs were largely comprised of propane. In the fourth quarter of 2020 the Company resumed production from two wells in the Basing area which were initially butane weighted, driving a realized NGL price 15% higher than the average market price.

The Company's realized condensate prices for both the three months and year ended December 31, 2021 were consistent with the average market prices over the same periods. The Company's realized crude oil prices for the three months and year ended December 31, 2021 were both 7% lower than the average market prices over the same periods. Variations from the benchmark are a function of product sales occurring periodically over the quarter and year, compared to the average daily reference price.

Royalties

C\$'000s	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Natural gas, NGLs and condensate	962	533	81%	2,093	603	247%
Crude oil	231	76	204%	570	148	285%
Total royalties	1,193	609	96%	2,663	751	255%
Effective average royalty rate	18%	14%	29%	12%	6%	119%

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 months and year ended December 31, 2021 the Company's base royalty rate for natural gas ranged from 5% to 26%, 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 June 2021, Company received a Gas Cost Allowance ("GCA") credit of C\$0.6 million following a government re-assessment of the 2020 royalties paid by the Company from the government. The June 2020 the Company's GCA credit was C\$1 million, which resulted in a recovery of royalties in both comparative periods.

As a result of these credits, the Company's effective royalty rate for the year ended December 31, 2021 was 12%, compared to 6% in 2020. The Company forecasts its effective royalty rate will range between 15–20% for 2022, reflecting GCA and new production from Basing and Voyager which 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

C\$'000s	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Natural gas, NGLs and condensate	3,172	3,691	(14%)	13,788	10,655	29%
Crude oil	237	65	265%	595	219	172%
Total operating costs	3,409	3,756	(9%)	14,383	10,874	32%
Unit Cost (C\$/boe)						
Natural gas, NGLs and condensate	16.76	16.27	3%	17.44	12.56	39%
Crude oil	32.13	13.17	144%	21.11	13.17	60%
Average cost	17.34	16.05	8%	17.57	12.57	40%

On a Unit Cost (C\$/boe) basis, total operating costs ("opex") for natural gas, NGLs and condensate for the three months ended December 31, 2021 were consistent with the comparable period in 2020, and opex for natural gas, NGLs and condensate for the year ended December 31, 2021 were 39% higher than the prior year reflecting the impact of costs for gas transport and compression obligations pursuant to the Jixing Gas Handling and Voyager Compression Agreements (as defined in Note 26 of the Financial Statements), which commenced with the commissioning of Voyager in June 2020.

On a Unit Cost basis, 2021 crude oil opex for both the three months and year ended December 31, 2021 were higher than the comparative periods, as the Company reactivated two wells previously shut in response to the materially stronger oil price experienced in 2021. For the year ended December 31, 2021, opex on an average Unit Cost basis was C\$17.57/boe, 40% higher than 2020, reflecting the impact of the gas transport and compression costs and higher oil opex.

General and Administrative Costs

C\$'000s	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Staff costs	181	170	7%	750	1,278	(41%)
Directors fees	30	30	—	120	120	—
Phantom Unit charges (recovery)	(156)	3	(5,308%)	334	42	695%
Accounting, legal and consulting fees	735	657	12%	1,377	1,336	3%
Office	37	29	29%	125	99	27%
Share-based expense	30	46	(36%)	118	123	(4%)
Other	38	26	47%	142	148	(4%)
Total G&A costs	895	961	(7%)	2,966	3,146	(6%)
Capitalized staff costs	—	—		353	341	

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total general and administrative ("G&A") costs for the three months and year ended December 31, 2021 were 7% and 6% lower respectively than the comparative periods in 2020. Staff cost reductions were primarily realized from a 20% reduction in headcount, which is estimated to reduce staff costs by approximately C\$500k on an annualized basis. In the fourth quarter of 2021, the Company recovered C\$156k of costs associated with its Phantom Unit Plan (refer to Note 19 in the Financial Statements), and incurred an expense of C\$334k in respect of the Phantom Unit Plan for the year ended December 31, 2021. Costs and recoveries associated with the Phantom Unit Plan are realized reflecting changes in the Company's share price over the same period.

Other costs include memberships, insurance, travel and accommodation, the 4% year-over-year reduction over the comparative period is due to lower travel and accommodation expenditures. Capitalized G&A costs are comprised of qualifying expenditures in respect of geological and geophysical activities, changes over the comparative periods are a function of qualifying activity incurred during that time.

The Company uses the fair-value method for the determination of non-cash related share-based payments expense. 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\$30k of share-based expense in the fourth quarter of 2021 (2020: C\$46k) and C\$118k for the year ended December 31, 2021 (2020: C\$123k).

Finance Expenses

C\$'000s	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Interest expense and financing costs:						
Subordinated debt	892	997	(11%)	3,888	3,707	5%
Right of use assets and leases	75	67	12%	295	236	25%
Commitment charges	64	49	30%	129	569	(77%)
Capital payables	191	137	40%	191	137	40%
Other financing costs and bank charges	9	7	34%	28	3	847%
Accretion expenses:						
Decommissioning liabilities	1	2	(27%)	32	20	62%
Shareholder loans	(72)	27	(368%)	(26)	92	(129%)
Amortization of debt issuance costs	139	126	11%	516	502	3%
Loss (gain) on foreign exchange	—	2	(100%)	—	—	—
Total finance expenses	1,300	1,413	(8%)	5,055	5,266	(4%)

For the three months and year ended December 31, 2021 and 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%. Following a principal payment of C\$4.3M in December 2021, the interest rate reverted to 12%, and reduce further to 10% in the future if the Company achieves certain benchmarks.

For the three months and year ended December 31, 2021, commitment charges are comprised of costs associated with the Company's PSG facility (refer to Note 27 in the Financial Statements). 2020 commitment charges are primarily attributable to one-time fees of C\$352k pursuant to the cancellation of a warrant subscription agreement on January 24, 2020. For the three months and year ended December 31, 2021 and 2020, accretion expenses were incurred from decommissioning liabilities and the fair value adjustment of the Company's shareholder loans.

Amortization of debt issuance costs includes legal fees, commissions and commitment fees which were incurred for the closing and subsequent amendments to the subordinated debt facility (refer to Note 13 to the Financial Statements). These costs are capitalized against the debt, and amortized over the term.

Depletion, Depreciation and Amortization

C\$'000s except per unit costs	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Depletion	1,448	1,746	(17%)	4,789	4,864	(2%)
Depreciation	10	72	(87%)	38	97	(61%)
Amortization of right of use assets	190	145	31%	745	617	21%
Total DD&A	1,648	1,963	(16%)	5,572	5,578	(0%)
Per boe	8.38	8.39	(0%)	6.81	6.45	6%

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

Depletion is a function of both production and the capitalized value of assets subject to depletion. DD&A on a per boe basis for the year ended December 31, 2021 is higher than the comparative period in 2020 attributable to the lower book value of PP&E following the C\$5 million impairment incurred in 2020.

Impairment Losses and Write-offs

C\$'000s	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
E&E write-offs	246	523	(53%)	278	741	(62%)
E&E impairment	—	3,459	(100%)	—	3,595	(100%)
PP&E impairment (recovery)	(573)	4,743	112%	(4,591)	5,389	185%
Total impairment and write-offs	(327)	8,725	104%	(4,313)	9,726	144%

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. E&E 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 Financial Statements for additional disclosures in respect of the Company's significant accounting policies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PP&E impairment (recovery)

At December 31, 2021, the Company identified indicators of impairment and/or impairment recovery in its PP&E assets in the Basing, Voyager and Dawson CGU's attributable to changes in commodity prices and well performance. The recoverable amount of the Basing, Voyager and Dawson CGU's was estimated based upon the higher of the value in use or fair value less costs of disposal. In each case, fair value less costs of disposal was used and the recoverable amount is within the Level 3 hierarchy of IFRS 13. The Company calculated the recoverable amount of the Basing and Voyager CGU's based on forecasted cash flows from proved plus probable reserves using a 10% and 12% before-tax discount rate with escalated prices and future development costs as obtained from the independent reserve report. Based on the assessment, the carrying amount of the Company's Basing CGU million was lower than its recoverable amount and the Company recognized an impairment recovery of C\$4.9 million as at December 31, 2021. At December 31, 2021, the carrying amount of the Dawson CGU was lower than its recoverable amount and the Company recognized an impairment recovery of C\$0.15 million. The carrying amount of the Voyager CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$0.5 million at December 31, 2021.

At March 31, 2020, the Company identified indicators of impairment in its PP&E assets in the Basing and Dawson CGU's attributable to declines in commodity prices. The recoverable amount of the Basing and Dawson CGU's was estimated based upon the higher of the value in use or fair value less costs of disposal. In each case, fair value less costs of disposal was used. In determining fair value, forecasted cash flows from proved plus probable reserves using a before-tax discount rate of 10% and 12%, with future development costs as obtained from the independent reserve report dated December 31, 2019, and escalated prices as detailed in Note 18 of the Financial Statements. Based on the assessment, the carrying cost of the Basing CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$0.5 million. Based on the assessment, the carrying cost of the Dawson CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$0.1 million.

At December 31, 2020, the Company identified indicators of impairment in its PP&E assets in the Basing and Voyager CGU's attributable to declines in commodity prices and well performance. The recoverable amount of the Basing and Voyager CGU's was estimated based upon the higher of the value in use or fair value less costs of disposal. In each case, fair value less costs of disposal was used. The Company calculated the recoverable amount of the Basing and Voyager CGU's based on forecasted cash flows from proved plus probable reserves using a 10% and 12% before-tax discount rate with escalated prices and future development costs as obtained from the independent reserve report. Based on the assessment, the carrying amount of the Company's Basing CGU million was lower than its recoverable amount and no impairment was required. Based on the assessment, the carrying amount of the Voyager CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$4.8 million.

2020 E&E impairment

On March 31, 2020, the Company identified indicators of impairment in its E&E assets in the Dawson CGU attributable to declines in commodity prices. The Company calculated the recoverable amount of the Dawson E&E CGU as the capitalized value of its undeveloped lands. 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 and the Company recognized an E&E impairment loss of C\$0.1 million.

At December 31, 2020, the Company identified indicators of impairment in its E&E assets in the Basing CGU attributable to declines in commodity prices and regional well performance. At December 31, 2020, the Company assessed the recoverable amount of the Basing E&E CGU as the capitalized value of its undeveloped lands. Based on the assessment as at December 31, 2020, the carrying amount of the Company's E&E assets in respect of the Basing GCU was higher than the recoverable amount and the Company recognized an E&E impairment loss of C\$3.5 million.

Loss and Comprehensive Loss

C\$'000s	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Loss and comprehensive loss	(1,549)	(13,009)	(88%)	(4,809)	(21,851)	(78%)
Total loss and comprehensive loss	(1,549)	(13,009)	(88%)	(4,809)	(21,851)	(78%)

Loss and comprehensive loss for the three months and year ended December 31, 2021 was 88% and 78% lower respectively than the comparative periods in 2020, primarily attributable to higher impairment losses and write-offs incurred in 2020.

CAPITAL EXPENDITURES

C\$'000s	Year ended December 31,		
	2021	2020	Change
PP&E			
Production facilities	764	781	(2%)
Drilling, completion and workovers	7,500	791	848%
G&A costs capitalized	353	176	100%
Office and other	7	17	(60%)
Total PP&E	8,623	1,765	389%
E&E Assets			
G&A costs capitalized	—	165	(100%)
Other	—	3	(100%)
Total E&E	—	168	(100%)
Total PP&E and E&E	8,623	1,932	346%
Change in non-cash working capital	3,734	757	393%
Total	12,357	2,689	360%

2021 total PP&E and E&E capital expenditures ("capex") was C\$8.6 million, 346% higher than the previous year. 2021 PP&E production facilities and drilling capex primarily consists of costs associated with the new well at Basing which was completed in December 2021. The Company did not undertake any E&E expenditures during 2021. The Company capitalized a total of C\$0.35 million of G&A during 2021 (2020: C\$0.34 million) in accordance with the Company's accounting policies (refer to Note 4 in the Financial Statements).

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 the Financial Statements, 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 December 31, 2021	As at December 31, 2020
Long term debt ⁽¹⁾	17,355	1,886
Other liabilities	599	351
Lease liabilities	2,448	2,632
Net working capital deficit ⁽²⁾	22,740	29,938
Net debt	43,142	34,807
Shareholders' equity ⁽³⁾	5,014	5,161
Total capital	48,156	39,968
Gearing ratio⁽⁴⁾	90%	87%

Notes:

1 This is the fair value of the long term debt.

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

3 As at December 31, 2021 and the date of this MD&A, the Company has 397,886,520 common shares issued and outstanding and 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.

The 2020 working capital deficit includes C\$24 million of long term debt which has been reclassified as current as at December 31, 2020 as the Company was not in compliance with certain covenants of its subordinated debt facility during the year. The 2021 working capital deficit includes C\$3 million shareholder debt which matured at December 31, 2021 and C\$5 million of subordinated debt payments due in 2022.

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 July 30, 2020 the aggregate PSG was reduced to C\$1.85 million. Under the terms of the PSG facility, EDC will guarantee qualifying letters of credit (“L/C”) on behalf of the Company. Previously, these L/C's were cash collateralized, following approval by the EDC the requirement of the Company to hold cash to underwrite the L/C is relieved for the duration of the PSG approval. Under the terms of the PSG facility, the L/C guarantee period is the lesser of one year or the term of the L/C if less than 12 months. The guarantee can be renewed annually for long term L/C's subject to subsequent approval by the EDC. As at December 31, 2021, the Company has PSG coverage for the following L/C's:

Amount	Expiry
C\$1,100,000	June 13, 2023
C\$408,158	March 31, 2023

For the years ended December 31, 2021 and 2020, the Company incurred fees totaling C\$0.1 million in relation to the PSG facility.

The PSG facility has a 12 month term and must be renewed annually. The current term expires on September 24, 2022. If the facility is not approved for renewal, the PSG coverage will terminate at the expiry of the existing L/C's and the Company will seek alternative insurance arrangements to guarantee the L/C's or cash collateralize them.

Capital resources

On September 1, 2021, the Company and a Persta director arranged a loan facility for up to C\$3 million (the “**2021 Shareholder Loan**”). C\$1.5 million was advanced to the Company on the same day, the remaining C\$1.5 million was advanced to the Company on October 27, 2021. The proceeds were used to fund part of the capital costs for the new Basing well and general corporate purposes.

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 December 3, 2021, the Company completed a private placement issuing 16 million common shares at a price of HK\$0.80 per share for gross proceeds of HK\$12.8 million (C\$2.05 million) with Jilin Nuoshida Energy Investment Co., Ltd. (“**Jilin**”). On June 8, 2021 the Company entered into a subscription agreement with Dalian Yongli Petrochemical Ltd. (“**Dalian**”) (as subsequently amended as detailed in the Company's announcement on October 28, 2021) pursuant to which the Company conditionally agreed to allot and issue, and Dalian conditionally agreed to subscribe for 55 million common shares at a minimum price of HK\$0.80 per share. As Dalian is a connected person (as defined in the Listing Rules) of the Company, the subscription agreement, supplemental agreements and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Independent Shareholders approval was obtained at a special general meeting of shareholders on October 15, 2021. On December 13, 2021, the Company completed the first tranche of the Dalian subscription agreement issuing 20 million common shares at a price of HK\$0.80 per share for gross proceeds of HK\$16 million (C\$2.56 million) (“**Dalian Tranche 1**”).

MANAGEMENT'S DISCUSSION AND ANALYSIS

At December 31, 2021, the Company had a working capital deficiency of C\$22.7 million and has fully drawn C\$20 million on its subordinated debt, which is subject to certain covenants and matures on May 15, 2023. As at December 31, 2021, the Company was in compliance with all covenants associated with the subordinated debt. On November 30, 2021, the Company paid an aggregate of C\$4.38 million, comprised of the 2021 Principal Payments (as defined in Note 13 of the Financial Statements) and all accrued interest as of the same date and the lender confirmed the loan interest would revert to 12% and no further PIK interest would be incurred.

On March 11, 2022, the Company and lender agreed to restructure the loan agreement (the "**2022 Restructuring**"). Under the terms of the 2022 Restructuring, financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13 of the Financial Statements) have been waived for the remainder of the loan term. The Company is obligated to make a principal payment of C\$2.5 million on or before June 30, 2022, a principal payment of C\$2.5 million on or before December 31, 2022 and a principal payment of C\$1.0 million on or before March 31, 2023. To satisfy the December 2022 C\$2.5 million and March 2023 C\$1.0 million principal payments, the Company intends to complete an equity placing in the first half of 2022. The subordinated debt matures in May 2023, assuming the June 2022, December 2022 and March 2023 principal payments are made, the loan will total C\$14.75 million at maturity. The Company is evaluating alternative debt providers to assume the loan secured against the value of the Company's reserves and assets.

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

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

Use of proceeds from the Jilin Subscription

C\$'000,000	% of total net proceeds	Planned use of net proceeds from the Closing Date to December 31, 2021 ²	Actual use of net proceeds during the period from the Closing Date to December 31, 2021 ²	Proceeds unused
Business objective as stated in the announcement¹				
SubDebt principal payment ³	100%	2.05	2.05	—
Total	100%	2.05	2.05	—

Notes:

- (1) Refer to the Company's announcement dated September 3, 2021.
- (2) The Subscription was closed on December 3, 2021 (the "**Closing Date**").
- (3) All net proceeds were applied towards the Company's SubDebt (as defined in Note 13 of the Financial Statements).

Use of proceeds from the Dalian Tranche 1 Subscription

C\$'000,000	% of total net proceeds	Planned use of net proceeds from the Closing Date to December 31, 2021 ²	Actual use of net proceeds during the period from the Closing Date to December 31, 2021 ²	Proceeds unused
Business objective as stated in the Circular¹				
Drilling new well at Basing	35%	0.91	0.91	—
SubDebt principal payment	45%	1.17	1.17	—
General working capital	20%	0.52	0.52	—
Total	100%	2.60	2.60	—

Notes:

- (1) Refer to the Company's shareholder proxy circular (the "**Circular**") dated September 17, 2021.
- (2) The Dalian Tranche 1 subscription was closed on December 13, 2021 (the "**Closing Date**").

SHARES, WARRANTS AND STOCK OPTIONS OUTSTANDING

Common Shares

On December 3, 2021, the Company completed a private placement issuing 16 million common shares at a price of HK\$0.80 per share for gross proceeds of HK\$12.8 million (approximately C\$2.05 million). On December 13, 2021, the Company completed the first tranche of a private placement issuing 20 million common shares at a price of HK\$0.80 per share for gross proceeds of HK\$16 million (C\$2.56 million). As at December 31, 2021 and as at the date of this MD&A, the Company has 397,886,520 common shares outstanding (2020: 361,886,520).

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 years ended December 31, 2021 and 2020 and up to the date of the MD&A. As at December 31, 2021 and as at the date of this MD&A, the Company has 8 million warrants outstanding (2020: 8 million).

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 issued 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 award, and the second and third tranches vesting equally on the second and third anniversary respectively. As at December 31, 2021 and 2020, and as at the date of this MD&A, the Company has 3.78 million options outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

COMMITMENTS

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business. Refer to Note 28 of the Financial Statements for disclosure of the Company's commitments and contingencies.

DIVIDEND

The Board did not approve the payment of a dividend for the years ended December 31, 2021 and 2020.

RELATED PARTY TRANSACTIONS

Refer to Note 26 of the Financial Statements for disclosure of the Company's related party transactions.

OFF-BALANCE SHEET TRANSACTIONS

The Company was not involved in any off-balance sheet transactions during the years ended December 31, 2021 and 2020.

PLEGGED ASSETS

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

CONTINGENT LIABILITIES

As at December 31, 2021 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 the relevant subsidiaries, associates and joint ventures during the year ended December 31, 2021 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

EVENTS AFTER THE REPORTING PERIOD

SubDebt Restructuring

On March 11, 2022, the Company and lender agreed to restructure the loan agreement (the “**2022 Restructuring**”). Under the terms of the 2022 Restructuring, financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13 of the Financial Statements) have been waived for the remainder of the loan term. The Company is obligated to make a principal payment of C\$2.5 million on or before June 30, 2022, a principal payment of C\$2.5 million on or before December 31, 2022 and a principal payment of C\$1.0 million on or before March 31, 2023.

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 Financial Statements.

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 loan are recorded at fair value. The subordinated debt is recorded at amortized cost.

The Company did not enter into any financial derivatives contracts for years ended December 31, 2021 and 2020. For the year ended December 31, 2021, the Company experienced a foreign exchange loss of C\$0.6k (2020: loss of C\$0.5k). These foreign exchange losses are related to the revaluation of monetary items held in Hong Kong Dollars and the value changes with the fluctuation in the Hong Kong Dollars/Canadian Dollars exchange rates. The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they relate. The Company has not hedged its exposure to currency fluctuation and the Company currently does not have a foreign currency hedging policy, however, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Periodically, the Company has entered into fixed price physical commodity contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the financial statements. During the year ended December 31, 2020, the Company 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

Subsequent to the completion of these contracts, the price for natural gas in western Canada has strengthened and the Company has not entered into any additional contracts up to the date of this MD&A. The Company continually monitors the market for its products and will manage commodity risk in the future through the use of fixed physical and/or derivative contracts in periods of pricing weakness.

RELATIONSHIPS WITH STAKEHOLDERS

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

HUMAN RESOURCES

The Company had 6 employees as at December 31, 2021 (2020: 6). The employees of the Company are employed under employment contracts which set out, among other things, their job scope and remuneration. Further details of their employment terms are set out in the employee handbook of the Company. The Company determines the employees' salaries based on their job nature, scope of duty, and individual performance. The Company also provides reimbursements, allowances for site visits and a discretionary annual bonus for the employees. Employee compensation for the year ended December 31, 2021 totaled C\$1.7 million (2020: C\$1.7 million) (refer to Note 19 in the Financial Statements).

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 Financial Statements.

CHANGES IN ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable IFRSs as issued by the IASB. The IASB has issued a number of new and revised IFRSs effective January 1, 2020. For the purpose of preparing the financial statements, the Company has adopted all applicable new and revised IFRSs for the years ended December 31, 2021 and 2020 (refer to Notes 4(r) and 4(s) of the Financial Statements).

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

For the period starting January 1, 2021 and ending December 31, 2021, 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, 2021 and ending December 31, 2021, 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.

There were no changes made to Persta's internal controls over financial reporting during the period beginning on January 1, 2021 and ending on December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Management has concluded that Persta's internal control over financial reporting was effective as of December 31, 2021. 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;

MANAGEMENT'S DISCUSSION AND ANALYSIS

- the extent and frequency of communication of monitoring results to the board which enables it to assess control of the Company and the effectiveness of risk management;
- the adequacy of resources, staff qualifications and experience and training programmes;
- budget of the Company's accounting and financial reporting functions; communication of the monitoring results to the Board that enables it to assess control of the Company and the effectiveness of the risk management;
- significant control failings or weaknesses that have been identified during the period. Also, the extent to which they have caused unforeseeable outcomes or contingencies that had or might have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's processes for financial reporting and compliance with applicable listing rules and securities laws.

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

Persta monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations, royalty regime or taxation. In addition, Persta maintains a level of liability, business interruption and property insurance which is believed to be adequate for the Company's size and activities, but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims. See "Forward-Looking Information" in this MD&A and "Risk Factors" in the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2021. The AIF is available at the Company's website at www.persta.ca and also 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

C\$'000s	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Commodity sales from production	6,566	4,309	52%	21,480	13,269	62%
Net trading revenue (loss)	(12)	12	(204%)	(11)	9	(229%)
Royalties	(1,194)	(609)	96%	(2,663)	(751)	255%
Operating costs	(3,409)	(3,756)	(9%)	(14,383)	(10,874)	32%
Operating netback	1,951	(44)	4485%	4,423	1,653	168%

Adjusted EBITDA

C\$'000s	Three months ended December 31,			Year ended December 31,		
	2021	2020	Change	2021	2020	Change
Commodity sales from production	6,566	4,309	52%	21,480	13,269	62%
Net trading revenue (loss)	(12)	12	(204%)	(11)	9	(229%)
Royalties	(1,194)	(609)	96%	(2,663)	(751)	255%
Operating costs	(3,409)	(3,756)	(9%)	(14,383)	(10,874)	32%
General and administrative costs ⁽¹⁾	(1,022)	(912)	12%	(2,515)	(2,981)	(16%)
Other income	17	97	(82%)	48	213	(77%)
Adjusted EBITDA	947	(859)	210%	1,957	(1,115)	275%

(1) General and administrative costs exclude non-cash share-based and Phantom Unit expenses.

REVIEW OF ANNUAL RESULTS

This annual report of the Company for the year ended December 31, 2021, was reviewed by the audit and risk committee of the Company (the **"Audit and Risk Committee"**) and approved by the Board. The financial figures in respect of the Company's financial statements for the year ended December 31, 2021 as set out in the announcement in relation to the annual results for the year ended December 31, 2021 (the **"Audited Year End Results"**) have been compared to the amounts set out in the Company's financial statements for the Year and the amounts were found to be in agreement.

As at the date of this report, the Audit and Risk Committee, which consists of three members, all of whom are independent non-executive Directors, has reviewed the Company's Audited Year End Results. The Audit and Risk Committee is of the opinion that such financial statements comply with (i) the applicable IFRSs, including all applicable individual IFRSs, IASs and interpretations issued by the IASB; and (ii) the Listing Rules and the Stock Exchange's legal requirements, and that adequate disclosures have been made.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditor's report on the Company's audited financial statements for the Year. The report includes paragraphs of material uncertainty related to going concern, without modification:

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standard Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related To Going Concern

We draw attention to Note 3 to the financial statements, which indicates that as at December 31, 2021, the Company's current liabilities exceeded its current assets by C\$22.7 million, incurred a loss of C\$4.8 million for the year ended December 31, 2021. These conditions, along with other matters as set forth in Note 3 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

SELECTED ABBREVIATIONS

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

Crude oil and natural gas liquids

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

Natural gas

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

Other

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

CONVERSION FACTORS — IMPERIAL TO METRIC

Bbl = 0.1590 cubic metres (m³)

Mcf = 0.0283 cubic metres (10³m³)

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 REPORT

The Board is pleased to present this corporate governance report in the annual report of the Company for the year ended December 31, 2021.

CORPORATE GOVERNANCE PRACTICES

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

For the year ended December 31, 2021 (the “**Year**”), the Company has complied with the CG Code.

THE BOARD

Responsibilities

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

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

Board Composition

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

Executive Directors:

Mr. Yongtan Liu (*Chairman of the Board*)

Mr. Pingzai Wang (*President and Chief Executive Officer*)

Independent non-executive Directors:

Mr. Richard Dale Orman

Mr. Peter David Robertson

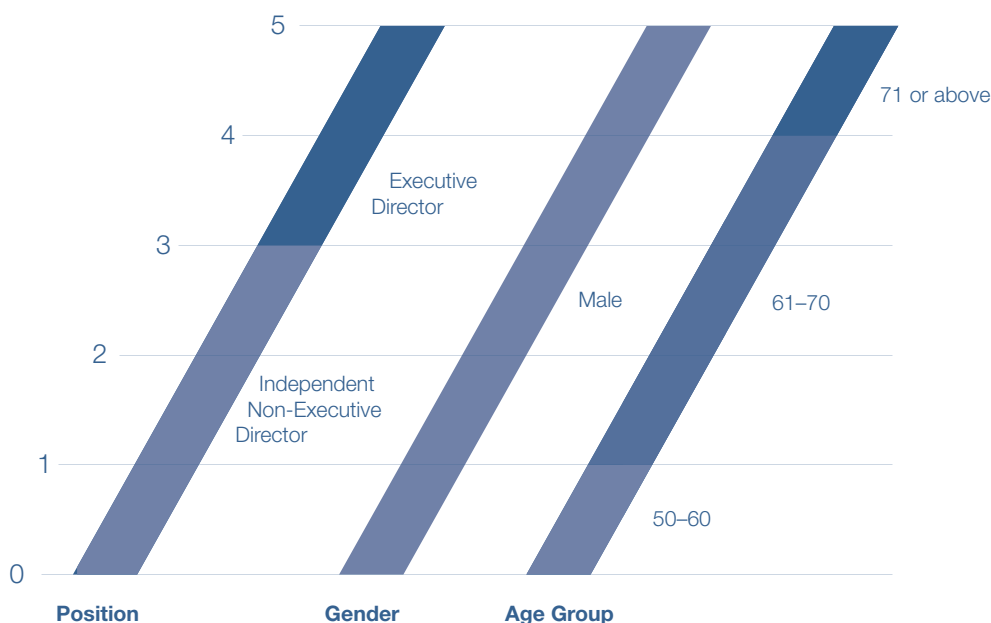
Mr. Larry Grant Smith

During the year ended December 31, 2021, the Board at all times met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Among the three independent non-executive Directors, Mr. Peter David Robertson has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Board Diversity Policy

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

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



As at the date of this annual report, the diversity of the Board is illustrated as above. Further details on the biographies and experience of the Directors are set out in “Profiles of Directors and Senior Management” in this annual report.

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

Measurable Objective

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

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

The Board has not set any measurable objectives for the year ended December 31, 2021. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. The Board would ensure that appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices and the Board will consist of a female Director by December 31, 2024.

Confirmation of Independence by the Independent Non-executive Directors

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

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

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

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

Induction and Continuous Professional Development

Pursuant to code provision A.6.5 (which has been re-numbered as C.1.4 since January 1, 2022) of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

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

During the Year, each of the Directors received from the Company from time to time the updates on laws, rules and regulations which might be relevant to their roles, duties and functions as director of a listed company. All Directors have been updated with the latest developments regarding the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. In addition, continuing briefing and professional development to Directors will be arranged whenever necessary.

Chairman and Chief Executive Officer

The roles of the chairman of the Board and chief executive officer ("CEO") are segregated and assumed by two separate individuals who have no relationship with each other to ensure that the power and authority are not concentrated in any one individual for the purpose of code provision A.2.1 (which has been re-numbered as C.2.1 since January 1, 2022) of the CG Code. During the Year, Mr. Yongtan Liu was the chairman of the Board and Mr. Pingzai Wang was the Company's CEO.

Appointment and Re-Election of Directors

Mr. Yongtan Liu has entered into a service agreement as executive Director for an initial term of three years commencing from December 18, 2019.

Mr. Richard Dale Orman and Mr. Peter David Robertson signed an appointment letter with the Company as independent non-executive Directors for an initial term of three years commencing from February 26, 2017. The term of appointment was automatically extended for an additional three years on February 26, 2020, and the term of appointment shall be automatically extended under the same terms of the service contract until it is terminated.

Mr. Larry Grant Smith has entered into an appointment letter with the Company as independent non-executive Director for a term of three years commencing from December 4, 2020.

Mr. Pingzai Wang has entered into a service agreement with the Company as executive Director for a term of three years commencing from July 1, 2020. Mr. Wang is currently entitled to receive emoluments of C\$330,000 (approximately HK\$1,876,433) per annum as the CEO, as determined by the Board with reference to his duties, responsibilities, remuneration policy of the Company, performance of the Company as well as the prevailing market condition. Mr. Wang does not receive any additional emolument from the Company as an executive Director.

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

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

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

Majority Voting Policy

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

Board Meetings and General Meetings

The Company adopts the practice of holding board meetings regularly, at least 4 times a year, and at approximately quarterly intervals. Notices of not less than 14 days are given for all regular board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting. For other Board and committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or committee members at least 3 days before the meetings to ensure that they have sufficient time to review the papers and be adequately prepared for the meetings. When directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the company secretary with copies circulated to all Directors for information and records.

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

During the year ended December 31, 2021, seven board meetings were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Yongtan Liu	7/7
Mr. Pingzai Wang	7/7
Mr. Richard Dale Orman	7/7
Mr. Peter David Robertson	7/7
Mr. Larry Grant Smith	7/7

During the year ended December 31, 2021, one annual general meeting and one special meeting of shareholders were held and the attendance of the individual Directors at these meetings is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Yongtan Liu	2/2
Mr. Pingzai Wang	2/2
Mr. Richard Dale Orman	2/2
Mr. Peter David Robertson	2/2
Mr. Larry Grant Smith	2/2

Model Code for Securities Transactions

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

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Year and as at the date of this Annual Report. In addition, the Company is not aware of any non-compliance of the Model Code by senior management of the Company during the Year and as at the date of this Annual Report.

Delegation by the Board

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

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

Corporate Governance Function

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

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Company; and
- (e) to review and ensure the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the Corporate Governance Report to be contained in the Company's annual reports.

The Board has performed all the above corporate governance duties during the year ended December 31, 2021.

BOARD COMMITTEES

Nomination Committee

During the Year and up to the date of this annual report, the Nomination Committee was comprised of Mr. Yongtan Liu (chairman), Mr. Larry Grant Smith and Mr. Peter David Robertson, the majority of whom are independent non-executive Directors.

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

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

During the year ended December 31, 2021, one meeting of the Nomination Committee was held and the attendance record of the Nomination Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Yongtan Liu (<i>Chairman</i>)	1/1
Mr. Peter David Robertson	1/1
Mr. Larry Grant Smith	1/1

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

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

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

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

Procedure for Nomination of Directors

1. When there is a vacancy on the Board, the Nomination Committee evaluates the balance of skills, knowledge, experience and characteristics of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive Director).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Nomination Committee to evaluate whether he or she meets the criteria adopted by the Nomination Committee for nomination of directors. One or more members of the Nomination Committee will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Nomination Committee meeting to discuss and vote on which candidate(s) to nominate to the Board.

7. Make recommendations to the Board on the candidate(s) for directorship and/or for senior management.
8. Convene a Board meeting to discuss and vote on which candidate(s) to appoint to the Board.

Criteria for Nomination of Directors

1. Common criteria for all Directors

- (a) Character and integrity.
- (b) The willingness to assume board fiduciary responsibility.
- (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs.
- (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company.
- (e) Significant business or public experience relevant and beneficial to the Board and the Company.
- (f) Breadth of knowledge about issues affecting the Company.
- (g) Ability to objectively analyse complex business problems and exercise sound business judgement.
- (h) Ability and willingness to contribute special competencies to Board activities.
- (i) Fit with the Company's culture.

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

- (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings.
- (b) Accomplishments of the candidate in his/her field.
- (c) Outstanding professional and personal reputation.
- (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules.

Remuneration Committee

During the Year and up to the date of this annual report, the Remuneration Committee was comprised of Mr. Richard Dale Orman (chairman), Mr. Yongtan Liu and Mr. Larry Grant Smith, the majority of them are independent non-executive Directors.

The Remuneration Committee has adopted the second model described in paragraph B.1.2(c) (which has been re-numbered as E.1.2(c) since January 1, 2022) under Appendix 14 of the Listing Rules (i.e. make recommendations to the Board on the remuneration packages of individual executive Directors and senior management members).

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

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

During the year ended December 31, 2021, two meetings of the Remuneration Committee were held and the attendance record of the Remuneration Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Richard Dale Orman (<i>Chairman</i>)	2/2
Mr. Yongtan Liu	2/2
Mr. Larry Grant Smith	2/2

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

Details of the remuneration by band of the 3 members of senior management of the Company, whose biographies are set out in "Profiles of Directors and Senior Management" in this annual report, for the year ended December 31, 2021 are set out below:

Remuneration band	Number of individuals
<i>Hong Kong dollars</i>	
Nil–1,000,000	—
1,000,001–1,500,000	—
1,500,001–2,000,000	1
2,000,001–2,500,000	1
2,500,001–3,000,000	1
3,500,001–4,000,000	—
4,500,001–5,000,000	—

Phantom Unit Plan

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

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

CORPORATE GOVERNANCE REPORT

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

As at a Participant’s termination date (being the date on which the Participant ceases to be a member of the Board by way of retirement, non-re-election as a director, resignation or death), the Participant (or his or her legal representative) is entitled to, by giving written notice to the Company, redeem all or a portion of the Phantom Units recorded on his or her account as at a particular date (the “**Redemption Date**”). The Participant is entitled on the Redemption Date to receive an amount equal to the number of Phantom Units to be redeemed on such Redemption Date multiplied by the Fair Market Value of a Share on such Redemption Date, net of any applicable deductions and withholdings. In December 2019, the directors agreed that any amounts due at the Redemption Date would be paid by the Company not less than 366 days after the Redemption Date.

The Phantom Unit Plan became effective on the Listing Date. Details of the Phantom Unit Plan are set out in Note 19 to the Company’s audited financial statements for the year ended December 31, 2021.

Audit and Risk Committee

During the Year and to the date of this annual report, the Audit and Risk Committee was comprised of Mr. Peter David Robertson (chairman), Mr. Richard Dale Orman and Mr. Larry Grant Smith, all of them being independent non-executive Directors.

The primary duties of the Audit and Risk Committee include overseeing the financial position of the Company, overseeing the Company’s financial controls, internal control and risk management systems, the audit process and proposals of internal management, and communicating independently with, monitoring and verifying the work of external auditors.

During the year ended December 31, 2021, 5 meetings of the Audit and Risk Committee were held and the attendance record of the Audit and Risk Committee members is set out in the table below:

Directors	Attended/Eligible to attend
Mr. Peter David Robertson (<i>Chairman</i>)	5/5
Mr. Richard Dale Orman	5/5
Mr. Larry Grant Smith	5/5

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

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

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

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2021 which give a true and fair view of the affairs of the Company and of the Company's results and cash flows.

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

Material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern are disclosed in Note 3 of the audited financial statements for the year ended December 31, 2021. The statement by the auditor of the Company regarding their reporting responsibilities on the financial statements of the Company is set out in the Independent Auditor's Report in this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Controls

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

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

During the year ended December 31, 2021, the Company has complied with code provision C.2 (which has been re-numbered as D.2 since January 1, 2022) of the CG Code by establishing appropriate and effective risk management and internal control systems. The Company reviews and monitors the adequacy and effectiveness of the risk management and internal control system on an ongoing basis. Given the small size of the Company (6 full time employees as at December 31, 2021) and limited number of transactions processed annually, the Company does not have an internal audit function. In lieu, during the year ended December 31, 2021, the Audit and Risk Committee and the Board have reviewed the overall effectiveness of the Company's risk management and internal controls systems. In conducting such review, the Board has: (i) reviewed and discussed the scope and results of the annual testing with the Company's auditor; and (ii) reviewed with management the results of the Company's internal management representation process that was performed in connection with the preparation of the annual financial statements. Based on its review, the Board believes that the risk management and internal control systems of the Company are effective and adequate, and is not aware of any material defects in the effectiveness of internal controls.

CORPORATE GOVERNANCE REPORT

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

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

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

Annual Assessment

A review of the effectiveness of the Company's risk management and internal control system covering all material controls, including financial, operational, compliance, and risk management controls, is conducted annually. The review at the end of 2021 was conducted with reference to the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) internal control framework, which assesses the Company's internal control system against the five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. The Company has also conducted an annual review to assess the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their budget (for training and related programs). The approach, findings, analysis and results of this annual review have been reported to the Audit and Risk Committee and the Board. The Audit and Risk Committee and the Board considered the risk management and internal control systems effective and adequate.

AUDITOR'S REMUNERATION

The Company incurred C\$382,200 in 2021 for services provided by the external auditor in connection with financial statements audits.

There was no non-audit service fee incurred in 2021.

COMPANY SECRETARY AND PRIMARY CONTACT OF THE COMPANY

Mr. Jesse Meidl, the Chief Financial Officer of the Company has been appointed as joint company secretary of the Company on December 4, 2020.

Pursuant to Rule 8.17 of the Listing Rules, a listed issuer must appoint a company secretary who meets the requirements under Rule 3.28 of the Listing Rules. Rule 3.28 of the Listing Rules provides that a listed issuer must appoint as its company secretary an individual who, in the opinion of the Stock Exchange, is capable of discharging the functions of company secretary of the listed issuer by virtue of his/her academic or professional qualifications or relevant experience.

Mr. Meidl currently does not possess the academic or professional qualifications of a company secretary as required under Rules 3.28 and 8.17 of the Listing Rules. In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Chau Hing Ling, the director of corporate services of Vistra Corporate Services (HK) Limited (a company secretarial service provider), as its joint company secretary assisting Mr. Jesse Meidl to discharge his duties as company secretary of the Company. Her primary corporate contact person at the Company is Mr. Jesse Meidl, the joint company secretary of the Company.

During the year ended December 31, 2021, both Ms. Chau Hing Ling and Mr. Jesse Meidl have undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

SHAREHOLDERS' RIGHTS

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

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

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

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each shareholder meeting. As regards proposing a person for election as a director, the procedures are available on the website of the Company.

CORPORATE GOVERNANCE REPORT

Enquiries to the Board

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

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

Fax: +1 403-440-1206

Email: ir@persta.ca

Enquiries are dealt with in a timely and informative manner.

CHANGE IN CONSTITUTIONAL DOCUMENTS

No changes were made to the Company's By-Laws during the year ended December 31, 2021.

The Board is pleased to present its report together with the audited financial statements (the “**Financial Statements**”) of the Company for the year ended December 31, 2021.

PRINCIPAL ACTIVITIES

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

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

The Company was incorporated in Calgary, Alberta, Canada under the Business Corporations Act (Alberta) in 2005 and has no subsidiaries.

BUSINESS REVIEW

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

RESULTS

The results of the Company for the year ended December 31, 2021 are set out in the section headed “Management Discussion and Analysis” in this annual report.

FINAL DIVIDENDS

The Board has resolved not to recommend payment of any final dividend for the year ended December 31, 2021.

DIVIDEND AND DIVIDEND POLICY

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

DIRECTORS' REPORT

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

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

FINANCIAL SUMMARY

A summary of the Company's results and assets and liabilities for the last five financial years are set out in the section "Five-Year Financial Summary" in this annual report. This summary does not form part of the audited Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended December 31, 2021, the Company had four active customers (2020: four active customers), of which one customer exceeded 10% of the Company's revenues. The Company's largest customer accounted for 79% of revenues totaling C\$17 million, the second largest customer accounted for 10% of revenues totaling C\$2.1 million.

For the year ended December 31, 2021, the Company's largest supplier accounted for approximately 39% of the Company's total cost of sales. The Company's five largest suppliers accounted for approximately 92% of the Company's total cost of sales.

For the year ended December 31, 2021, the Company incurred C\$5.7 million (approximately 23% of the Company's total cost of sales) to Jixing Energy (Canada) Ltd., a private Canadian company controlled by the Company's Chairman Mr. Yongtan Liu pursuant to the Jixing Gas Handling and Jixing Voyager Compression Agreements as defined in Note 26 of the Financial Statements. As at December 31, 2021, the Company has a total balance owing to Jixing of C\$4.89 million. Pursuant to the 2021 Restructuring of the Company's debt (see Note 13 in the Financial Statements), any payment made to a related party is subject to the Insider Payment Restrictions and prohibited unless the loan balance is equal to or less than C\$15 million; or if the loan balance is less than C\$17.5 million, but greater than C\$15 million, the Debt to Trailing EBITDA Ratio shall be less than 3.5:1.0.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company during the year ended December 31, 2021 are set out in Note 10 to the Financial Statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended December 31, 2021 are set out in Note 16 to the Financial Statements.

RESERVES

Details of movements in the reserves of the Company during the year ended December 31, 2021 are set out in the section headed "Statement of Changes In Shareholders' Equity" in the Financial Statements.

DISTRIBUTABLE RESERVES

As at December 31, 2021, the Company's distributable reserves were nil.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company as at December 31, 2021 are set out in Note 13 to the Financial Statements.

LOAN AND GUARANTEE

During the year ended December 31, 2021, the Company had not made any loan or provided any guarantee for loans, directly or indirectly, to the Directors, senior management, its Controlling Shareholder or his/her respective connected persons.

DIRECTORS

The Directors during the year ended December 31, 2021 and up to the date of this annual report were:

Executive Directors:

Mr. Yongtan Liu (*Chairman*)

Mr. Pingzai Wang (*President and Chief Executive Officer*)

Independent non-executive Directors:

Mr. Richard Dale Orman

Mr. Peter David Robertson

Mr. Larry Grant Smith

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND THE SENIOR MANAGEMENT

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

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received a confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent during the year ended December 31, 2021.

DIRECTORS' SERVICE CONTRACT AND LETTER OF APPOINTMENTS

Mr. Yongtan Liu has entered into a service agreement as executive Director for an initial term of three years commencing from December 18, 2019.

Mr. Richard Dale Orman and Mr. Peter David Robertson signed an appointment letter with the Company as independent non-executive Directors for an initial term of three years commencing from February 26, 2017. The term of appointment was automatically extended for an additional three years on February 26, 2020, and the term of appointment shall be automatically extended under the same terms of the service contract until it is terminated.

Mr. Larry Grant Smith has entered into an appointment letter with the Company as independent non-executive Director for a term of three years commencing from December 4, 2020.

Mr. Pingzai Wang has entered into a service agreement with the Company as executive Director for a term of three years commencing from July 1, 2020. Mr. Wang is currently entitled to receive emoluments of C\$330,000 (approximately HK\$1,876,433) per annum as the CEO, as determined by the Board with reference to his duties, responsibilities, remuneration policy of the Company, performance of the Company as well as the prevailing market condition. Mr. Wang does not receive any additional emolument from the Company as an executive Director.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended December 31, 2021.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

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

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

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

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

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

EMPLOYEES

The Company had 6 employees as at December 31, 2021. The employees of the Company are employed under employment contracts which set out, among other things, their job scope and remuneration. Further details of their employment terms are set out in the employee handbook of the Company. The Company determines the employees' salaries based on their job nature, scope of duty, and individual performance. The Company also provides reimbursements, allowances for site visits and a discretionary annual bonus for the employees. The Company also provides employees with welfare benefits in accordance with the applicable laws and the internal policies of the Company.

RETIREMENT BENEFITS SCHEME

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

EMOLUMENT POLICY

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

As at December 31, 2021, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register maintained by the Company, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interest in Shares of the Company

Name of Director	Nature of Interest	Number and class of Shares ⁽¹⁾	Approximate % of shareholding
Yongtan Liu ⁽²⁾	Security interest, interest in controlled corporation and interest of spouse	181,194,306	45.54%
	Interest in controlled corporation and interest of spouse	23,600,000	5.93%
Pingzai Wang ⁽³⁾	Beneficial owner and interest of spouse	2,093,167	0.53%

Notes:

- The calculation is based on the total number of 397,886,520 Shares in issue as at December 31, 2021.
- 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 181,194,306 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.
- Mr. Pingzai Wang holds a total of 1,500,000 stock options and 440,000 Shares of the Company. Ms. Li Wang holds 153,167 Shares. Ms. Li Wang is the spouse of Mr. Pingzai Wang. Accordingly, Mr. Pingzai Wang is deemed, or taken to be, interested in the Shares which Ms. Li Wang is interested in for the purposes of the SFO.

Interest in shares of the associated corporation of the Company

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

Note:

1. 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 181,194,306 shares as security interest.

Save as disclosed above, as at December 31, 2021, 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 December 31, 2021, 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 of Director	Capacity/Nature of interest	Number of shares ⁽¹⁾	Approximate % of issued share capital
Aspen Investment Holdings Ltd. ⁽²⁾ ("Aspen")	Beneficial owner and parties acting in concert	181,194,306 (Long Position)	45.54%
Yuan Jing ("Mr. Jing") ⁽³⁾	Interest in controlled corporation and parties acting in concert	181,194,306 (Long Position)	45.54%
Ji Lin Hong Yuan Trade Group Limited (吉林省弘原經貿集團有限公司) ("JLHY") ⁽²⁾⁽⁴⁾	Interest in controlled corporation and parties acting in concert	181,194,306 (Long Position)	45.54%
Changchun Liyuan Investment Co., Ltd. (長春市麗源投資有限公司) ("Liyuan") ⁽⁵⁾	Interest in controlled corporation and parties acting in concert	181,194,306 (Long Position)	45.54%
Guang Jing ⁽⁶⁾	Interest in controlled corporation	181,194,306 (Long Position)	45.54%

DIRECTORS' REPORT

Name of Director	Capacity/Nature of interest	Number of shares ⁽¹⁾	Approximate % of issued share capital
Jixing Gas Holdings Limited ⁽⁷⁾	Security interest	181,194,306	45.54%
	Beneficial owner	23,600,000 (Long Position)	5.93%
Changchun ⁽⁷⁾	Security interest	181,194,306	45.54%
	Interest in controlled corporation	23,600,000 (Long Position)	5.93%
Ms. Zhang ⁽⁷⁾⁽⁸⁾	Security interest, interest in controlled corporation and interest of spouse	181,194,306	45.54%
	Interest in controlled corporation and interest of spouse	23,600,000 (Long Position)	5.93%
Dalian Yongli Petrochemical Ltd (大連永力石油化工有限公司) ("Dalian") ⁽⁹⁾	Beneficial owner	80,000,000 (Long Position)	20.11%
Zhang Zhong ⁽⁹⁾	Interest in controlled corporation	80,000,000 (Long Position)	20.11%

Notes:

- The calculation is based on the total number of 397,886,520 Shares in issue as at December 31, 2021.
- Aspen holds 181,194,306 Shares and is owned as to approximately 80.78% and 19.22% by JLHY and Liyuan respectively. Pursuant to the unanimous shareholders agreement dated December 18, 2015 (the "**Unanimous Shareholders Agreement**") as amended on September 3, 2021 (the "**Amended USA**"), Aspen, Mr. Jing, JLHY and Liyuan became parties acting in concert and therefore Aspen is deemed to be interested in all the Shares in which Mr. Jing is interested in under the SFO, which in aggregate represent approximately 45.54% of the total number of the issued Shares of the Company.
- Mr. Jing is interested in 60% of the equity interest in JLHY. Pursuant to the Unanimous Shareholders Agreement and the Amended USA, Mr. Jing is deemed to be interested in the Shares in which Aspen, JLHY and Liyuan are interested in under the SFO, which in aggregate represent approximately 45.54% of the total number of the issued Shares of the Company.
- 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 Amended USA, JLHY is deemed to be interested in all the Shares in which Aspen, Mr. Jing and Liyuan are interested in under the SFO, which in aggregate represent approximately 45.54% of the total number of the issued Shares of the Company.
- 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 Amended USA, Liyuan is deemed to be interested in all the Shares in which Aspen, Mr. Jing and JLHY are interested in under the SFO, which in aggregate represent approximately 45.54% of the total number of the issued Shares of the Company.
- Guang Jing holds 40% of the equity interest in JLHY and is therefore deemed to be interested in all the Shares in which JLHY is interested in under the SFO.
- 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 181,194,306 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.

8. 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. Zhang Zhong holds 100% of the equity interest in Dalian and is therefore deemed to be interested in all the Shares in which Dalian is interested in under the SFO.

Save as disclosed above, and as at December 31, 2021, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended December 31, 2021 was the Company or its holding company, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

On December 3, 2021, the Company completed a private placement issuing 16 million common shares at a price of HK\$0.80 per share for gross proceeds of HK\$12.8 million (approximately C\$2.05 million). On December 13, 2021, the Company completed the first tranche of a private placement issuing 20 million common shares at a price of HK\$0.80 per share for gross proceeds of HK\$16 million (C\$2.56 million).

Save as disclosed above, the Company has not purchased, redeemed or sold any of its listed securities during the Year.

PRE-EMPTIVE RIGHTS

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

CHANGE IN SHAREHOLDING STRUCTURE OF CONTROLLING SHAREHOLDER

On September 3, 2021 the Company was notified by Aspen, 164 Co, JLHY, Mr. Jing, Liyuan and Mr. Bo that they have entered into an agreement (the "**Aspen Restructuring**") pursuant to which JLHY shall purchase, and Mr. Bo shall sell, all of the shares in Aspen held by 164 Co.

Prior to the Aspen Restructuring it was owned as to approximately 41.09%, 39.69% and 19.22% by JLHY, 164 Co and Liyuan respectively. Upon completion of the Aspen Restructuring on October 28, 2021, JLHY became the owner of approximately 80.78% of the total issued shares in Aspen, and the remaining 19.22% of the total issued shares in Aspen are continued to be held by Liyuan. Immediately before and after the completion of the Aspen Restructuring, it held 181,194,306 Shares, representing approximately 50.07% of the issued share capital of the Company. As such, Mr. Jing continued to retain shareholding control of Aspen, and Aspen remains as the controlling shareholder of the Company.

DIRECTORS' REPORT

Prior to the Aspen Restructuring, Aspen, 164 Co, JLHY, Mr. Jing, Liyuan, Mr. Bo and Ms. Hou were considered as a group of controlling shareholders of the Company acting in concert as defined under the Listing Rules (the “**Concert Parties**”), and were party to the Unanimous Shareholder Agreement. On September 3, 2021, the Concert Parties notified the Company that they considered it unnecessary to maintain their acting in concert arrangement after completion of the Aspen Restructuring and agreed to amend the Unanimous Shareholder Agreement (the “**Amended USA**”) pursuant to which, among other things, the acting-in-concert arrangement under the Unanimous Shareholder Agreement was terminated; and Mr. Jing replaced Mr. Bo as Aspen's sole director. Immediately upon the execution of the Amended USA, the Concert Parties were no longer deemed to be interested in all the Shares in which Mr. Jing and Mr. Bo were interested in under the SFO, and the Concert Parties were no longer a group of shareholders of the Company acting-in-concert under the Code on Takeovers and Mergers issued by the Securities and Futures Commission. As such, following completion of the Aspen Restructuring, Aspen, JLHY, Mr. Jing and Liyuan are deemed the Controlling Shareholders of the Company.

NON-COMPETITION UNDERTAKING

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

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

Each of the Controlling Shareholders has made an annual confirmation in respect of their compliance with the terms of the Deed of Non-competition undertaking during the Year.

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at December 31, 2021, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the businesses of the Company.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2019, the Company and Jixing Energy (Canada) Ltd. entered into gas handling agreements, which subsequently became continuing connected transactions of the Company following the appointment of Mr. Liu as an executive Director under Chapter 14A of the Listing Rules. Details of the connected transactions and/or continuing connected transactions entered into during the year ended December 31, 2021 are set out in Note 26 of the Financial Statements.

Details of the above continuing connected transactions have been disclosed in accordance with Chapter 14A of the Listing Rules and are set out in the announcements of the Company dated December 19, 2019, December 23, 2019 and April 12, 2022 which are available on the respective websites of the Stock Exchange and the Company.

Confirmations from the Company

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

Confirmations from the independent non-executive directors

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed the continuing connected transactions for the year ended December 31, 2021 and confirmed that they had been entered into:

- (i) in the ordinary and usual course of the business of the Company;
- (ii) on normal or better commercial terms; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

CONFIRMATIONS FROM THE AUDITORS

As to the requirement set forth in Rule 14A.56 of the Listing Rules, the auditor of the Company has written to the Board to confirm that it has not been aware of any matter which leads it to believe the aforesaid continuing connected transactions:

- (i) have not been approved by the Board; and
- (ii) are not carried out in accordance with the related transaction agreement in any material respects.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company for the year ended December 31, 2021 are set out in Note 26 to the Financial Statements.

DIRECTORS' REPORT

The related party transactions in respect of the remuneration of directors and chief executive of the Company constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The related party transactions in respect of the remuneration of key management personnel (other than directors and chief executive) of the Company did not fall under the definition of connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The related party transaction in respect of the Jixing Gas Handling and Voyager Compression Agreements (refer to Note 26 of the Financial Statements) became continuing connected transactions as defined in Chapter 14A of the Listing Rules upon the appointment of Mr. Liu as an executive Director on December 18, 2019. None of the other related party transactions fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

CHARITABLE DONATIONS

During the year ended December 31, 2021, the Company made no charitable or any other donations.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee had reviewed together with management and the external auditor the accounting principles and policies adopted by the Company and the audited Financial Statements for the year ended December 31, 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the year ended December 31, 2021. In addition, the Company is not aware of any non-compliance of the Model Code by senior management of the Company during the Year.

DIRECTORS' INDEMNITIES

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

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

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

CORPORATE GOVERNANCE

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The shares of the Company were listed on the Stock Exchange on March 10, 2017. KPMG LLP ("**KPMG**") were the Company's auditors from the listing date until their resignation on August 25, 2020.

On March 26, 2021 the Company announced that, with the recommendation from the Audit and Risk Committee, it has resolved to appoint BDO Limited ("**BDO**") as the auditors of the Company with effect from 26 March 2021, and to hold office until the conclusion of the annual general meeting of the Company (the "**AGM**") held on August 24, 2021 and was re-appointed as auditor of the Company by the Shareholders.

The Financial Statements for the year ended December 31, 2021 have been audited by BDO, who are proposed for reappointment at the forthcoming AGM.

Save as disclosed above, the Company has not changed its auditor during any of the past three years.

MATERIAL LEGAL PROCEEDINGS

The Company was not involved in any material legal proceeding during the year ended December 31, 2021.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended December 31, 2021, the Company was not aware of any non-compliance with relevant laws and regulations that would have an impact thereon.

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

STOCK OPTION PLAN

The Board and the Shareholders have approved the adoption of a stock option plan (the “**Option Plan**”). The purpose of the Option Plan is to permit the granting of options to purchase Common Shares (“**Options**”) to directors, officers, employees of, and consultants to, the Company.

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. In addition, the following restrictions apply to the Option Plan:

- (a) the aggregate number of Common Shares reserved for issuance pursuant to Options granted to any one individual under the Option Plan within any 12-month period must not exceed 1% of the issued and outstanding Common Shares (on a non-diluted basis). Where any further grant of Options to an individual under the Option Plan would result in the Common Shares issued and to be issued upon exercise of all Options granted and to be granted to such individual (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Common Shares, such further grant must be separately approved by the Shareholders at a special meeting with such individual and his close associates abstaining from voting, and the number and terms of Options to be granted to such individual must be fixed before the Shareholders’ approval. In such event, the Company must send a circular to the Shareholders containing the identity of the individual, the number and terms of Options to be granted (and Options previously granted to such individual) and all other information required by the Stock Exchange. The date of the Board meeting proposing such further grant should be taken as the grant date for the purpose of calculating the Exercise Price (as defined in the Option Plan) under Article 6;
- (b) the aggregate number of Common Shares reserved for issuance pursuant to Options granted to Related Persons (as defined in the Option Plan) (as a group) may not exceed 10% of the issued and outstanding Common Shares (on a non-diluted basis) unless disinterested Shareholder approval is obtained;
- (c) the grant to Related Persons (as a group) within a 12-month period of an aggregate number of Options may not exceed 10% of the issued and outstanding Common Shares (on a non-diluted basis) unless disinterested Shareholder approval is obtained;
- (d) the aggregate number of Common Shares reserved for issuance pursuant to Options granted to any consultants or persons conducting investor relations activities may not exceed 2% of the issued and outstanding Common Shares (on a non-diluted basis) unless disinterested Shareholder approval is obtained; and
- (e) each grant of Options to a director, executive officer or substantial shareholder of the Company, or any of their respective associates, under the Option Plan shall comply with the requirements of the Stock Exchange. Specifically, each grant of Options to any of the foregoing persons shall be approved by independent non-executive directors of the Company (excluding any independent non-executive director that is an individual participating in the Option Plan).

Where any grant of Options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled or outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the Common Shares; and
- (ii) where the securities listed on the Stock Exchange, having an aggregate value, based on the closing price of the Common Shares at the date of each grant, in excess of HK\$5 million, such further grant of options must be approved by Shareholders at a special meeting, with voting to be taken by way of poll. The Company shall send a circular to the Shareholders containing all information as required under the Stock Exchange rules in this regard. All core connected persons of the Company shall abstain from voting (except where any core connected person intends to vote against the proposed grant and his intention to do so has been stated in the aforesaid circular). Any change in the terms of an Option granted to a substantial shareholder of the Company or an independent non-executive director, or any of their respective close associates, is also required to be approved by Shareholders in the aforesaid manner.

Each Option and all rights thereunder will expire on the date set out in the applicable option agreement and will be subject to the earlier termination provisions of the Option Plan, provided that in no circumstances will the duration of an Option exceed 10 years from the date of grant. Under the Option Plan, in the event of the death of a participant, the Options previously granted to such participant will be exercisable only within one year after such death and then only to the extent that such deceased participant was entitled to exercise his Option at the date of his death.

Pursuant to the Option Plan, the Exercise Price shall be fixed by the Board at the time that the Option is granted and shall be at least the highest of: (i) the closing price of the Common Shares as stated in the Stock Exchange's daily quotations sheet on the grant date, which must be a business day; or (ii) the average closing price as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the grant date. The Option Plan also provides that the Board may, in its sole discretion, determine the time during which Options shall vest and the method of vesting.

The Option Plan is administered by the Board, which has authority and discretion, subject to the express provisions of the Option Plan, to interpret the Option Plan, to amend the Option Plan and to make all other determinations deemed necessary or advisable for the administration of the Option Plan. The Board has the right, in its sole discretion, to amend, suspend or terminate the Option Plan or any portion thereof at any time, in accordance with applicable legislation, without obtaining the approval of shareholders; provided that any amendment to any provision of the Option Plan will be subject to any required regulatory approval, stock exchange rules and the provisions of applicable law, if any, that require the approval of shareholders. Notwithstanding the foregoing, the Company will be required to obtain the approval of disinterested Shareholders for any amendment related to: (i) the issuance to any one individual within a 12-month period a number of Common Shares exceeding 1% of the issued and outstanding Common Shares; and (ii) reducing the Exercise Price for outstanding Options granted to an insider of the Company.

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 **"2020 Option Grant"**). 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. The closing price of the Company's common shares on May 15, 2020, being the last day of trading before the 2020 Option Grant was HK\$0.50 per share.

DIRECTORS' REPORT

Details of the options granted under the Stock Option Plan and those remained outstanding as at December 31, 2021 are set out below:

Name and category of participant	Options granted		Balance as of January 1, 2021	Number of options				Balance as of December 31, 2021
	Date	Amount		Granted during the Year	Exercised during the Year	Cancelled during the Year	Lapsed during the Year	
Director(s) and their associate(s)								
Mr. Pingzai Wang	May 18, 2020	1,500,000	1,500,000	—	—	—	—	1,500,000
Other employees	May 18, 2020	2,280,000	2,280,000	—	—	—	—	2,280,000
Total		3,780,000	3,780,000	—	—	—	—	3,780,000

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

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

CHANGES IN THE BOARD AND THE DIRECTOR'S INFORMATION

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

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF PERSTA RESOURCES INC.

(incorporated in Canada with limited liability)

OPINION

We have audited the financial statements of Persta Resources Inc. (“**the Company**”) set out on pages 71 to 126 which comprise the statement of financial position as at December 31, 2021, and the statement of loss and comprehensive loss, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standard Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditor's Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 3 to the financial statements, which indicates that as at December 31, 2021, the Company's current liabilities exceeded its current assets by C\$22.7 million and incurred a loss of C\$4.8 million for the year ended December 31, 2021. These conditions, along with other matters as set forth in Note 3 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the “Material Uncertainty Related to Going Concern” section, we have determined the matters described below to be the key audit matters to be communicated in our report.

INDEPENDENT AUDITOR'S REPORT

Impairment assessment of non-financial assets

(Refer to notes 9, 10, 11 and 18 to the financial statements)

As described in note 18 to the financial statements the Company recorded an impairment on its exploration and evaluation assets and impairment recovery on its property, plant and equipment of \$0.3 million and \$4.6 million as at December 31, 2021 respectively. The estimated recoverable amount of the cash generating units involves numerous estimates including the future discounted cash flows associated with estimated oil and gas reserves. The estimation of oil and gas reserves involves the expertise of qualified reserve evaluators engaged by the Company.

We have identified the impairment assessment of non-financial assets as a key audit matter because of its significance to the financial statements of the Company and is a judgemental process which requires estimates concerning the forecast future cash flows associated with the assets in determining the recoverable amount.

The selection of valuation model, adoption of key assumptions and input data may be subject to management bias and changes in these assumptions and input to the valuation model may result in significant financial impact.

Our procedures in relation to the impairment assessment of non-financial assets included:

- Examining and challenging management's assessment of impairment indicators and the methodology adopted by management in the impairment assessments with reference to the requirements of the prevailing accounting standards;
- Assessing management's determination of cash generating units ("CGU") for the respective stand alone cash-generating units and noted that they are reasonable based on our understanding of the Company's business;
- Evaluating the competence, capabilities, and objectivity of the independent qualified reserves evaluators engaged by the Company, and the methodology used by the independent qualified reserves evaluators;
- Comparing the 2021 actual production, operating, royalty and capital costs of the Company to those estimates used in the prior year's estimate of proved reserves to assess the Company's ability to accurately forecast;
- Comparing the forecasted commodity prices used in the estimate of proved and probable reserves to those published by other reserve engineering companies;
- Comparing estimates of forecasted production, forecasted operating, royalty and capital cost assumptions used in the estimate of proved and probable reserves to historical results;
- Examining the impairment test completed by the Company, with the assistance of a valuation specialist with specialized skill and knowledge who assisted in evaluating the Company's discount rate, by comparing it against market data and other external data. The valuation specialist estimated the recoverable amount of the CGUs using the estimate of the cash flows associated with the CGUs' reserves and the discount rate evaluated by the specialist and compared the results to market data and other external pricing data; and
- Evaluating the disclosures in the financial statements in respect of the impairment assessment of the CGUs and the key assumptions adopted with reference to the requirements of the prevailing accounting standards.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information in the Company's annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated. We obtained the information included in the Company's annual report for the year ended December 31, 2021 prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of financial statements in accordance with IFRSs, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

BDO Limited

Certified Public Accountants

Li Yin Fan

Practising Certificate Number P03113

Hong Kong, March 29, 2022

STATEMENT OF FINANCIAL POSITION

As at December 31, 2021 (Expressed in Canadian dollars)

	Note	As at December 31, 2021	As at December 31, 2020
Assets			
Current assets:			
Cash and cash equivalents	7	587,933	1,071,573
Accounts receivable	8	2,345,510	1,986,850
Prepaid expenses and deposits		454,460	480,793
Total current assets		3,387,903	3,539,216
Exploration and evaluation assets	9	6,696,957	6,974,847
Property, plant and equipment	10	40,744,552	31,797,573
Right of use assets	11	2,152,765	2,355,297
Total Assets		52,982,177	44,666,933
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	12	17,144,921	8,898,738
Current portion of long term debt	13	8,000,000	23,790,351
Current portion of lease liabilities	11	812,355	582,211
Decommissioning liabilities	14	170,526	205,836
Total current liabilities		26,127,802	33,477,136
Other liabilities	15	598,850	351,408
Lease liabilities	11	1,635,918	2,049,417
Long term debt	13	17,354,961	1,885,600
Decommissioning liabilities	14	2,250,837	1,741,996
Total liabilities		47,968,368	39,505,557

STATEMENT OF FINANCIAL POSITION

As at December 31, 2021 (Expressed in Canadian dollars)

	Note	As at December 31, 2021	As at December 31, 2020
Shareholders' equity:			
Share capital	16	215,922,331	213,426,683
Warrants	16	647,034	647,034
Contributed surplus	16	2,523,642	358,042
Accumulated deficit		(214,079,198)	(209,270,383)
Total shareholders' equity		5,013,809	5,161,376
Total Liabilities and Shareholders' Equity		52,982,177	44,666,933

Going concern	3
Commitments	28
Subsequent event	29

The accompanying notes form part of these annual financial statements.

Approved on behalf of the Board

"Yongtan Liu"
Yongtan Liu, Director

"Peter Robertson"
Peter Robertson, Director

STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the year ended December 31, 2021 (Expressed in Canadian dollars)

	Note	Year ended December 31,	
		2021	2020
Revenue			
Commodity sales from production	17	21,480,284	13,268,893
Trading revenue (loss)	17	(11,117)	8,613
Other income	17	48,392	213,376
Royalty expense		(2,663,408)	(751,433)
Total net revenue		18,854,151	12,739,449
Expenses			
Operating costs		(14,382,786)	(10,874,481)
General and administrative costs		(2,966,068)	(3,145,830)
Depletion, depreciation and amortization	10,11	(5,572,190)	(5,578,329)
Impairment recovery (losses) and write-offs	18	4,312,670	(9,725,995)
Total expenses		(18,608,374)	(29,324,635)
Income (loss) from operations		245,777	(16,585,186)
Finance expenses	22	(5,054,592)	(5,265,910)
Loss before taxes		(4,808,815)	(21,851,096)
Income taxes	23	—	—
Loss and comprehensive loss		(4,808,815)	(21,851,096)
Loss per share			
Basic and diluted	24	(0.01)	(0.07)

The accompanying notes form part of these annual financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2021 (Expressed in Canadian dollars)

	Note	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	Total Equity
Balance as at January 1, 2021	16	213,426,683	647,034	358,042	(209,270,383)	5,161,376
Shares issued for cash		4,608,100	—	—	—	4,608,100
Allocation for shares issued above market value		(2,048,000)	—	2,048,000	—	—
Share issue costs		(64,452)	—	—	—	(64,452)
Share-based expenses		—	—	117,600	—	117,600
Loss for the year		—	—	—	(4,808,815)	(4,808,815)
Balance as at December 31, 2021		215,922,331	647,034	2,523,642	(214,079,198)	5,013,809
Balance as at January 1, 2020	16	210,366,683	647,034	73,895	(187,419,287)	23,668,325
Shares issued for cash		3,060,000	—	—	—	3,060,000
Share-based expenses		—	—	123,200	—	123,200
Contributed surplus	13	—	—	160,947	—	160,947
Loss for the year		—	—	—	(21,851,096)	(21,851,096)
Balance as at December 31, 2020		213,426,683	647,034	358,042	(209,270,383)	5,161,376

The accompanying notes form part of these annual financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2021 (Expressed in Canadian dollars)

	Note	Year ended December 31,	
		2021	2020
Cash provided by (used in):			
Operations			
Net loss		(4,808,815)	(21,851,096)
Items not involving cash:			
Depletion, depreciation and amortization		5,572,190	5,578,329
Share-based expenses		117,600	123,200
Non-cash finance expenses		1,383,813	1,356,869
Unrealized foreign exchange loss		607	297
Impairment (recovery) losses and write-offs		(4,312,670)	9,725,995
Funds from operations		(2,047,275)	(5,066,406)
Changes in non-cash working capital	7	4,308,621	453,827
Total cash from (used in) operations		2,261,346	(4,612,579)
Investing			
Expenditures on property, plant and equipment		(4,889,600)	560,450
Expenditures on exploration and evaluation assets		—	(167,684)
Net cash (used in) from investing		(4,889,600)	392,766
Financing			
Proceeds from share issuance		4,608,100	3,060,000
Proceeds from debt		3,000,000	2,000,000
Principal portion of lease payments		(726,083)	(593,473)
Interest portion of lease payments		(295,333)	(235,596)
Repayment of debt		(4,377,011)	—
Share issue costs		(64,452)	—
Net cash from financing		2,145,221	4,230,931
Increase (decrease) in cash and cash equivalents		(483,033)	11,118
Effect of exchange rate changes on cash and cash equivalents		(607)	(297)
Cash and cash equivalents, beginning of year		1,071,573	1,060,752
Cash and cash equivalents, end of year		587,933	1,071,573
Supplementary information:			
Interest paid		3,295,811	3,200,384

The accompanying notes form part of these annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

1 CORPORATE INFORMATION

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

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

2 BASIS OF PREPARATION

(a) Statement of compliance

The financial statements set out in this report have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”), as issued by the International Accounting Standards Board (“**IASB**”). The IASB has issued a number of new and revised IFRSs effective January 1, 2021. For the purpose of preparing these financial statements, the Company has adopted all applicable new and revised IFRSs for the years ended December 31, 2021 and 2020 (refer to Note 4).

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

The accounting policies set out below have been applied consistently in all years presented in the financial statements. See Notes 4(r) and 4(s).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for the forward contracts for trading of natural gases which are measured at fair value as explained in accounting policies set out in Note 4. The Company held no outstanding forward contracts as at December 31, 2021 and 2020.

(c) Functional and presentation currency

The financial statements are presented in Canadian dollars (“C\$”), which is the Company’s functional currency.

(d) Use of estimates and judgments

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

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

2 BASIS OF PREPARATION (Continued)

(d) Use of estimates and judgments (Continued)

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 5.

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

3 GOING CONCERN

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2021, the Company had a working capital deficiency of C\$22.7 million, generated funds from operations of C\$2.3 million for the year ended December 31, 2021, and has fully drawn on its C\$20 million subordinated debt facility which matures on May 16, 2023.

As at March 31, 2021, the Company was not in compliance with the net debt to TTM EBITDA, working capital and net debt to total proved reserves covenants (as defined in Note 13). On June 30, 2021 the Company received a waiver in respect of this covenant breach. As at December 31, 2021, the Company was in compliance with all covenants associated with the subordinated debt.

On March 11, 2022, the Company and lender agreed to restructure the loan agreement (the “**2022 Restructuring**”). Under the terms of the 2022 Restructuring, financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13) have been waived for the remainder of the loan term. The Company is obligated to make a principal payment of C\$2.5 million on or before June 30, 2022, a principal payment of C\$2.5 million on or before December 31, 2022, and a C\$1.0 million principal payment on or before March 31, 2023.

The global impact of COVID-19 has resulted in significant volatility in global stock markets and has created a great deal of uncertainty in the global economy. These factors may have a negative impact on the Company's operations and its ability to raise financing to meet its debt covenants. 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, obtain equity financing, dispose of assets or other arrangements to fund operating and investing activities. There are no assurances that any waivers will be obtained or transactions will be completed, on terms acceptable to the Company. If these financial covenants are not met or a waiver is not obtained by lenders, the subordinated debt facility may become due on demand. These conditions cause material uncertainty which cast significant doubt on the Company's ability to continue as a going concern. Notwithstanding this, based on the cash flow projection, the directors of the Company consider that it is appropriate to prepare the financial statements on a going concern basis.

Should the use of the going concern basis in preparation of the financial statements be determined to be not appropriate, adjustments would have to be made to write down the carrying amounts of the Company's assets to their realizable values, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements. If the Company is unable to continue as a going concern, it may be forced to seek relief under applicable bankruptcy and insolvency legislation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been applied consistently in all years presented in these financial statements.

(a) Joint arrangements

Joint arrangements are contractual arrangements classified as either joint operations or joint ventures. Joint operations exist when the Company has rights to the assets and obligations for the liabilities, relating to an arrangement. As such, the financial statements only include the Company's share of its assets, liabilities and transactions associated with its joint operations.

(b) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Company, revenue recognized under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Revenue recognition (Continued)

Sales of crude oil, natural gas and natural gas liquids

Revenue from the sale of crude oil and natural gas is recognized when title to the products passes to the purchasers based on volumes delivered at contracted delivery points and prices and are recorded gross of transportation charges incurred by the Company. The costs associated with the delivery, including transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

Trading revenue

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.

Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate under the effective interest method.

(c) Finance income and expenses

Finance income is comprised of interest income. Finance expenses are recognized as the interest accrues, using the effective interest method. The effective interest method uses the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Finance expense comprises interest expense and other fees on the bank loan and various other loans, amortization of debt issue costs, accretion of the discount on decommissioning liabilities, commitment charges and foreign exchange gains and losses on foreign currency transactions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
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4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments

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

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

(i) Financial assets

- **Amortized cost**

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

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

(i) Financial assets (Continued)

- **Impairment of financial assets**

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

The Company recognises loss allowances for ECL on trade receivables and financial assets at amortised cost. ECLs are measured on either of the following bases:

- 12-months ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Company measured loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Company has established a provision matrix that is based on the Company’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, ECLs are based on lifetime ECLs except when there has not been a significant increase in credit risk since initial recognition, in which case the allowance will be based on the 12-months ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Company’s historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to action such as realising security (if any is held); or the financial asset is more than 90 days past due.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
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4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

(i) Financial assets (Continued)

- **Impairment of financial assets (Continued)**

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, for example when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 12 months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(ii) Financial liabilities

The Company classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

- **Financial liabilities at FVTPL**

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising the gains or losses on them on a different basis; (ii) the liabilities are part of a Company of financial liabilities which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Company's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of loss and comprehensive loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Financial instruments (Continued)

(ii) Financial liabilities (Continued)

- **Financial liabilities at amortised cost**

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

- **Effective Interest methods**

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(e) Exploration and evaluation assets

Exploration and evaluation ("**E&E**") assets include costs capitalized by the Company in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. E&E expenditures, including the costs of acquiring licences and directly attributable general and administrative costs ("**G&A**"), geological and geophysical costs, other direct costs of exploration (drilling, trenching, sampling and evaluating the technical feasibility and commercial viability of extraction) and appraisal are accumulated and capitalized as E&E assets. Costs incurred before the Company has obtained the legal rights to explore an area are expensed.

E&E assets are initially capitalized as intangible assets and are not amortized. E&E assets are assessed for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount. An impairment loss is recognized in profit or loss and separately disclosed.

Once the technical feasibility and commercial viability is determined, E&E assets attributable to that area are assessed for impairment with any impairment loss recognized in profit or loss. The remaining carrying value of the relevant E&E assets is then reclassified as development and production assets within property, plant and equipment. Technical feasibility and commercial viability is generally considered to be determined when proved plus probable reserves are determined to exist and commercial production of oil and gas has commenced on the licence or field.

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

NOTES TO THE FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment

Property, plant and equipment (“**PP&E**”) of the Company consists of development and production assets and office equipment.

Development and production assets

Development and production assets and right-of-use assets are carried at cost less accumulated depletion, depreciation, amortization and impairment losses. The cost of a development and production asset includes the initial purchase price and directly attributable expenditures to develop, construct and complete an asset. These costs include property acquisitions, development drilling, completion, gathering and infrastructure, asset retirement costs and transfers from E&E assets. Any costs directly attributable to bringing the asset to the location and condition necessary to operate as intended by management, and which result in an identifiable future benefit, are capitalized, including directly attributable G&A costs. Improvements that increase the capacity or extend the useful lives of related assets are also capitalized.

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

(g) Impairments

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

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

Value in use is estimated by consideration of the following:

- (i) net present value of the proved plus probable reserves as determined annually by independent reservoir engineers using future prices and costs using a pre-tax discount rate; and
- (ii) management's estimate of net present value of additional asset development not included in (i) above, using a pre-tax discount rate.

FVLCD is estimated by consideration of the following:

- (i) net present value of proved plus probable reserves as determined annually by independent reservoir engineers using future prices and costs using a pre-tax discount rate;
- (ii) management's estimate of fair value of undeveloped land;
- (iii) a review of the values indicated by the metrics of recent market transactions of similar assets within the oil and gas industry; and;

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairments (Continued)

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

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

(h) Reversal of impairment

An impairment loss may be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and depletion, if no impairment loss had been recognized and circumstances indicate the loss no longer exists or is decreased. An impairment loss reversal is recognized in profit or loss.

(i) Depletion and depreciation

Depletion of development and production assets is provided using the unit-of-production method based on production volumes before royalties in relation to total estimated proved plus probable reserves as determined annually by independent reservoir engineers using future prices and costs. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil. Calculations for depletion and depreciation are based on total capitalized costs plus estimated future development costs of proved plus probable reserves.

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

(j) Decommissioning liability

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

(k) Share capital

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

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

NOTES TO THE FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income taxes

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

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

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

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

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

(m) Related party transactions

- (a) A person, or a close member of that person's family, is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (b) An entity is related to the Company if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Related party transactions (Continued)

(b) (Continued)

- (vi) The entity is controlled or jointly-controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(n) Cash and cash equivalents

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

(o) Loss per share

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

(p) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applies judgement when reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Contractual arrangements containing a lease are then subject to various areas of judgement including the lease term and discount rate.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Leases (Continued)

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

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

(q) Share-based payments

The Company applies the fair-value method for valuing share option grants. Under this method, compensation cost attributable to all share options granted are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of the share options, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company has a cash-settled incentive award plan (the "**Phantom Unit Plan**") pursuant to which incentive awards may be granted to eligible directors as detailed in Note 19. Each incentive award entitles the holder to receive a cash payment equal to the value of one Persta common share. The cumulative expense is recognized at fair value at each period end and is included in trade and other payables.

(r) Adoption of new and revised standards and interpretations

The following new IFRS standards and interpretations were adopted by the Company on January 1, 2021:

Amendments to IFRS 9, IAS 39,
IFRS 7, IFRS 4 and IFRS 16
Amendment to IFRS 16

Interest Rate Benchmark Reform — Phase 2
COVID-19-Related Rent Concessions beyond June 30, 2021

There have been no new IFRSs or IFRIC interpretations that have a material impact on the Company's results and financial position for the year ended December 31, 2021. The Company has not early applied any new or amended IFRSs that is not yet effective for the year ended December 31, 2021.

4 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Standards issued but not yet effective

The following new and revised IFRSs, potentially relevant to the Company's financial statements have been issued, but are not yet effective and have not been early adopted by the Company:

Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current³</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies³</i>
Amendments to IAS 16	<i>Property, Plant and Equipment — Proceeds before Intended Use¹</i>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract¹</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates³</i>
Amendments to IAS 12	<i>Deferred Tax Related to Assets and Liabilities Arising From a Single Transaction³</i>
Amendments to IFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	<i>Annual Improvements to IFRSs 2018–2020¹</i>

⁽¹⁾ Effective for annual periods beginning on or after January 1, 2022.

⁽²⁾ Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022.

⁽³⁾ Effective for annual periods beginning on or after January 1, 2023.

The Company is not yet in a position to state whether these new pronouncements will result in substantial changes to the Company's accounting policies and financial statements.

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5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Critical judgments in applying accounting policies

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

(i) **Identification of CGUs**

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

(ii) **Identification of impairment indicators, assessment of impairment and impairment recovery**

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

(iii) **Lease arrangements**

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty for the year ended December 31, 2021 that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities:

(i) **Reserves**

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

5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Key sources of estimation uncertainty (Continued)

(i) Reserves (Continued)

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

(ii) Decommissioning obligations

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

(iii) Impairment of non-financial assets

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

(iv) Going concern assumption

The directors of the Company have prepared the financial statements on the assumption that the Company will be able to operate as a going concern in the foreseeable future, which is a critical judgement that has the most significant effect on the amounts recognized in the financial statements. The assessment of the going concern assumption involves making a judgement by the directors about the future outcome of events or conditions which are inherently uncertain. The directors consider that, after taking into account of all major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption as set out in Note 3 to the financial statements, the Company has the capability to continue as a going concern.

(v) Taxes

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

NOTES TO THE FINANCIAL STATEMENTS

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5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Key sources of estimation uncertainty (Continued)

(v) Taxes (Continued)

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

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted funds from operations. During the years ended December 31, 2021 and 2020, the Company has not recorded any deferred tax assets or liabilities due to the uncertainty of future taxable profits.

(vi) Share-based expenses

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

6 SUMMARY OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

The carrying amounts presented in the statement of financial position related to the following categories of financial assets and financial liabilities:

C\$	As at December 31, 2021	As at December 31, 2020
Financial assets		
Financial assets measured at amortised cost:		
Cash and cash equivalents	587,933	1,071,573
Accounts receivable	2,345,510	1,986,850
Prepaid expenses and deposits	454,460	480,793
	3,387,903	3,539,216
Financial liabilities		
Financial liabilities measured at amortised cost:		
Accounts payable and accrued liabilities	17,144,921	8,898,738
Long term debt	25,354,961	25,675,951
Lease liabilities	2,448,273	2,631,628
Decommissioning liabilities	2,421,363	1,947,832
Other liabilities	598,850	351,408
	47,968,368	39,505,557

Due to their short term nature, the carrying value of short term financial assets and liabilities approximates to their fair value.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Canadian dollars unless otherwise indicated)

7 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

C\$	As at December 31, 2021	As at December 31, 2020
Deposits with banks and other financial institutions	585,928	1,069,568
Cash on hand	2,005	2,005
Cash and cash equivalents in the statement of financial position and statement of cash flows	587,933	1,071,573

(b) Supplementary cash flows information

C\$	Year ended December 31,	
	2021	2020
Change in non-cash working capital:		
Accounts receivable	358,660	196,867
Prepaid expenses and deposits	(26,333)	(127,598)
Accounts payable and accrued liabilities	(8,493,625)	(1,338,468)
	(8,161,298)	(1,269,199)
Change in non-cash working capital included in investing and financing activities	12,469,919	(1,723,026)
Change in non-cash working capital included in operating activities	4,308,621	453,827

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
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7 CASH AND CASH EQUIVALENTS (Continued)

(c) Reconciliation of liabilities arising from financing activities

C\$	Lease liabilities	Shareholder loans	Subordinated debt	Total
At January 1, 2020	2,663,751	601,846	22,133,799	25,399,396
Changes from financing cash flows:				
Proceeds from debt	—	2,000,000	—	2,000,000
Interest paid	—	—	(3,200,385)	(3,200,385)
Principal repayment of lease liabilities	(593,472)	—	—	(593,472)
Interest repayment of lease liabilities	(235,596)	—	—	(235,596)
Changes from financing cash flows	(829,068)	2,000,000	(3,200,385)	(2,029,453)
Other charges:				
Lease additions	561,349	—	—	561,349
Interest expenses	235,596	—	3,200,385	3,435,981
Accrued and unpaid debt interest	—	—	356,699	356,699
Change in deferred debt costs	—	—	652,163	652,163
Accretion expense	—	92,391	—	92,391
Fair value adjustment	—	(160,947)	—	(160,947)
Other charges	796,945	(68,556)	4,209,247	4,937,636
At December 31, 2020	2,631,628	2,533,290	23,142,661	28,307,579
At January 1, 2021	2,631,628	2,533,290	23,142,661	28,307,579
Changes from financing cash flows:				
Proceeds from debt	—	3,000,000	—	3,000,000
Interest paid	—	—	(3,295,811)	(3,295,811)
Principal repayment	(726,083)	—	(4,377,011)	(5,103,094)
Interest repayment of lease liabilities	(295,333)	—	—	(295,333)
Changes from financing cash flows	(1,021,416)	3,000,000	(7,672,822)	(5,694,238)
Other charges:				
Lease additions	542,728	—	—	542,728
Interest expenses	295,333	—	3,295,811	3,591,144
Change in accrued and unpaid debt interest	—	—	591,711	591,711
Change in deferred debt costs	—	—	490,593	490,593
Accretion expense	—	(26,283)	—	(26,283)
Other charges	838,061	(26,283)	4,378,115	5,189,893
At December 31, 2021	2,448,273	5,507,007	19,847,954	27,803,234

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

8 ACCOUNTS RECEIVABLE

C\$	As at December 31, 2021	As at December 31, 2020
Trade receivables	2,054,942	1,680,327
Other receivables	290,568	306,523
Total	2,345,510	1,986,850

(a) Aging analysis of trade receivables

As at December 31, 2021 and 2020, 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 impairment, is as follows:

C\$	As at December 31, 2021	As at December 31, 2020
Within 1 month	2,054,942	1,680,327

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 years ended December 31, 2021 and 2020.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Canadian dollars unless otherwise indicated)

9 EXPLORATION AND EVALUATION ASSETS

C\$	As at December 31, 2021	As at December 31, 2020
Balance, beginning of year	6,974,847	18,543,990
Additions	—	167,684
Transfer to PP&E (Note 10)	—	(7,400,192)
Write-offs (Note 18)	(277,890)	(741,451)
Impairment (Note 18)	—	(3,595,184)
Balance, end of year	6,696,957	6,974,847

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 write-offs of lease expiries. Impairment is assessed based on the recoverable amount compared with the asset’s carrying amount to measure the amount of the impairment (refer to Note 18).

For the year ended December 31, 2021, general and administrative (“G&A”) costs of C\$nil (2020: C\$0.16 million) were capitalized and included in E&E additions as they were directly attributable to exploration and development activities. For the year ended December 31, 2021, the Company wrote-off C\$0.3 million (2020: C\$0.74 million) of E&E assets attributable to land lease expiries.

At December 31, 2020, the Company’s E&E assets in respect of its Basing, Voyager and Dawson CGUs was comprised solely of undeveloped lands in which the Company holds a right to explore for, and produce petroleum and natural gas.

Pursuant to the Jixing Gas Handling and Voyager Compression Agreements (as defined in Note 26), past costs incurred by the Company in respect of the Voyager gas gathering system and pipeline projects are to be repaid by Jixing. During 2019 E&E past costs totaling C\$0.3 million were received from Jixing. As at December 31, 2021 and 2020, all E&E past costs have been received in full.

2020 PP&E transfer

With the commissioning of production operations at Voyager in the second quarter of 2020, at June 30, 2020 the Company initially transferred C\$6.8 million of E&E assets to PP&E, comprised of development and production costs incurred for Voyager. C\$0.6 million of Voyager E&E assets were subsequently transferred to PP&E in the fourth quarter of 2020. In accordance with the Company’s accounting policy, all costs were assessed for impairment at the date of transfer to PP&E. As natural gas prices in the western Canadian market strengthened throughout the year, no indications of impairment were identified for the 2020 Voyager PP&E transfers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT

C\$	Cost	Accumulated Depletion, Depreciation, Impairment and Impairment Recovery	Net Book Value
At January 1, 2020	151,706,916	(117,056,706)	34,650,210
Additions	1,764,681	—	1,764,681
Change in decommissioning obligations	(97,972)	—	(97,972)
Transfer from E&E (Note 9)	7,400,192	—	7,400,192
Cost recovery (Note 26)	(1,568,373)	—	(1,568,373)
Depletion and depreciation	—	(4,961,805)	(4,961,805)
Impairment (Note 18)	—	(5,389,360)	(5,389,360)
At December 31, 2020	159,205,444	(127,407,871)	31,797,573
At January 1, 2021	159,205,444	(127,407,871)	31,797,573
Additions	8,623,277	—	8,623,277
Change in decommissioning obligations	560,072	—	560,072
Depletion and depreciation	—	(4,826,930)	(4,826,930)
Impairment recovery (Note 18)	—	4,590,560	4,590,560
At December 31, 2021	168,388,793	(127,644,241)	40,744,552

Substantially all of PP&E consists of development and production assets. During the years ended December 31, 2021 and 2020, the Company's PP&E additions were comprised of expenditures at Basing. With the commissioning of production operations at Voyager in the second quarter of 2020, on June 30, 2020 the Company initially transferred C\$6.8 million of E&E assets to PP&E, comprised of development and production costs incurred for Voyager. In the fourth quarter of 2020, the Company transferred an additional C\$0.6 million of E&E assets to PP&E. Included in PP&E additions for the year ended December 31, 2021 are G&A costs of C\$0.2 million (2020: C\$0.2 million) which were capitalized in accordance with the Company's accounting policies.

Pursuant to the Jixing Gas Handling and Voyager Compression Agreements (as defined in Note 26), past costs incurred by the Company in respect of the Voyager gas gathering system and pipeline projects are to be repaid by Jixing. During the year ended December 31, 2020, a total of C\$1.6 million of past costs in respect of PP&E were repaid by Jixing. As at December 31, 2021 and 2020, all past costs have been received in full.

Depletion, depreciation, impairment and impairment recovery

Depletion and depreciation, impairment of PP&E, and any reversal thereof, are recognized as separate line items in the statement of loss and other comprehensive loss. The depletion calculation for the year ended December 31, 2021 includes estimated future development costs of C\$6.2 million (2020: C\$6.1 million) associated with the development of the Company's proved plus probable reserves. Impairment and impairment recovery is assessed based on the recoverable amount compared with the asset's carrying amount to measure the amount of the impairment and/or impairment recovery (refer to Note 18).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

11 RIGHT OF USE ASSETS AND LEASE LIABILITIES

(a) Right of use assets

C\$	Oil and Gas Production	Office Space	Vehicles	Total
At January 1, 2020	135,367	2,275,104	—	2,410,471
Additions	540,266	—	21,084	561,350
Amortization	(168,123)	(440,343)	(8,058)	(616,524)
At December 31, 2020	507,510	1,834,761	13,026	2,355,297
At January 1, 2021	507,510	1,834,761	13,026	2,355,297
Additions	542,728	—	—	542,728
Amortization	(296,858)	(440,343)	(8,059)	(745,260)
At December 31, 2021	753,380	1,394,418	4,967	2,152,765

(b) Lease liabilities

C\$	Oil and Gas Production	Office Space	Vehicles	Total
At January 1, 2020	141,428	2,522,323	—	2,663,751
Additions	540,265	—	21,084	561,349
Lease payment	(172,471)	(413,754)	(7,247)	(593,472)
At December 31, 2020	509,222	2,108,569	13,837	2,631,628
At January 1, 2021	509,222	2,108,569	13,837	2,631,628
Additions	542,728	—	—	542,728
Lease payment	(271,765)	(446,855)	(7,463)	(726,083)
At December 31, 2021	780,185	1,661,714	6,374	2,448,273

Future lease payments are due as follows:

C\$	Future lease payments	Interest	Present value
As at December 31, 2021			
Within 1 year	1,039,105	226,750	812,355
1 to 2 years	1,013,041	148,162	864,879
2–5 years	849,580	78,541	771,039
Over 5 years	—	—	—
Total	2,901,726	453,453	2,448,273

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

C\$	As at December 31, 2021	As at December 31, 2020
Trade payables	304,751	394,767
Accrued liabilities	3,182,820	3,133,307
Total trade payables and accrued liabilities	3,487,571	3,528,074
Due to related party	4,977,058	—
Capital payables	8,081,434	5,111,454
Other payables	598,858	259,210
Total	17,144,921	8,898,738

All trade payables, accrued liabilities, capital payables and other payables are expected to be settled within one year or are payable on demand. C\$4.8 million of related party payables owed to Jixing Energy (Canada) Inc. ("Jixing") which are unsecured, interest free pursuant to the Jixing Gas Handling and Voyager Compression Agreements (Note 26b), C\$0.1 million are amounts owed pursuant to the Company's Phantom Unit Plan (Note 20). For the year ended December 31, 2021, capital payables are primarily comprised of costs incurred for the drilling of a new well at Basing and costs incurred pursuant to the Contract (as defined below). For the year ended December 31, 2020, capital payables are primarily comprised of costs incurred pursuant to the Contract. For the years ended December 31, 2021 and 2020, other payables are primarily comprised of office renovation and rent inducement expenditures.

During the year ended December 31, 2017, the Company entered into the Master Turnkey Drilling and Completion Contract (the "**Contract**") with an arm's length private company. Based on the Contract, the Company shall pay the invoices either within 90 days from the date of the invoice, or by installments as follows: (i) 15% due six months from the date of invoice, (ii) 35% due 12 months from the date of invoice and (iii) 50% due 24 months from the date of invoice. Any invoice balance outstanding for more than 90 days will bear interest at 4.24% per annum, calculated annually and prorated for the number of months outstanding with no compounding. For the year ended December 31, 2021, the Company accrued interest of C\$0.19 million (2020: C\$0.14 million) in respect of the Contract. The outstanding balances are unsecured. The Company has committed to use the services of the private company to drill and complete a minimum of five wells or certain penalties would be incurred should the Company fail to do so. There were no penalties incurred up to December 31, 2021.

Aging analysis of trade payables and accrued liabilities

As at December 31, 2021 and 2020, the aging analysis of trade payables and accrued liabilities is as follows:

C\$	As at December 31, 2021	As at December 31, 2020
Within 1 month	2,745,472	2,639,607
1 to 3 months	717,485	563,342
Over 3 months but within 6 months	24,614	325,125
Total	3,487,571	3,528,074

NOTES TO THE FINANCIAL STATEMENTS

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13 LONG TERM DEBT

C\$	As at December 31, 2021	As at December 31, 2020
Shareholder loans (net)	5,507,007	2,533,290
Subordinated debt	20,000,000	23,578,600
Accrued and unpaid interest and charges on subordinated debt	550,000	356,699
Less: deferred financing costs	(702,046)	(792,638)
Total	25,354,961	25,675,951
Current	8,000,000	23,790,351
Long term	17,354,961	1,885,600

(a) Subordinated debt

On May 16, 2018, the Company completed a subordinated debt (the “**SubDebt**”) financing with an arm’s length lender (the “**SubLender**”) totaling C\$25 million. The SubDebt has a term of 60 months and bears interest at 12% per annum (the “**Base Interest**”), compounded and payable monthly. The SubDebt is secured by a general security agreement over all present and after-acquired property of the Company subject to the fixed and floating first priority held by the Lender. An exit fee of C\$0.75 million is payable when the SubDebt facility is repaid or at maturity on May 16, 2023. As further defined below, the SubDebt is subject to financial and operating covenants. In connection with the SubDebt, the Company sold 8 million share purchase warrants to the SubLender for C\$0.75 million.

As at December 31, 2019 and March 31, 2021 the Company was not in compliance with its net debt to total proved reserves covenant (as defined below) and therefore the debt was due on demand. Accordingly, the SubDebt was classified as a current liability as at December 31, 2020.

On April 28, 2020, the Company and lender agreed to restructure the loan agreement (the “**2020 Restructuring**”). Under the terms of the 2020 Restructuring, the SubLender waived the December 31, 2019 and March 31, 2020 covenant breaches, and waived 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**”) for the remainder of 2020. Pursuant to the 2020 Restructuring, the SubDebt was subject to the following covenants for 2020: (a) 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 (“**2020 Funding Covenant**”) and; (b) measured at the end of each fiscal quarter maintaining the Company’s Alberta Energy liability management ratio above 2.0/1.0 (“**LMR Covenant**”).

Under the terms of the 2020 Restructuring, the following covenants are effective for the fiscal quarter ending March 31, 2021 and for all periods thereafter until the SubDebt is repaid in full: (a) net debt to TTM EBITDA not to exceed 4.5:1.0 for each fiscal quarter ending March 31, 2021 through December 31, 2021 and not to exceed 4.0:1.0 for the fiscal quarter ending March 31, 2022 and at all times thereafter; and (b) net debt to total proved reserves ratio not to exceed 0.75:1.0 as at March 31, 2021 and at all time thereafter; and (c) working capital of not less than 1.2:1.0 as at March 31, 2021 and at all times thereafter; and (d) the LMR Covenant.

13 LONG TERM DEBT (Continued)

(a) Subordinated debt (Continued)

Under the terms of the SubDebt and 2020 Restructuring Agreements, net debt is defined as the consolidated debt of the Company, less cash held, and excluding debt defined as capital payables (Note 12). TTM EBITDA is defined as the annualized earnings before deduction of interest expenses/income, income taxes, depletion and depreciation, write-offs, unrealized hedging gains/losses and share-based compensation for the four most recent fiscal quarters. Working capital is defined as the ratio of current assets to current liabilities. Current assets include the current assets as per the Company's financial statements excluding any unrealized hedging gains. Current liabilities include the current liabilities as per the Company's financial statements excluding any unrealized hedging losses, and excluding any amounts held in current liabilities for the SubDebt principal amount owing (amounts held in current liabilities for the SubDebt accrued and unpaid interest are included).

Pursuant to the 2020 Restructuring, starting April 1, 2020 the Company will incur an additional 2% per annum interest charge, which is due until the TTM EBITDA ratio is below 3.0 (the "**PIK Interest**"). PIK Interest fees will be paid-in-kind, with the fee being added to the principal of the loan on a monthly basis. The PIK Interest does not create any incremental cash obligations until the loan balance is repaid. A further 2% per annum additional interest is also due effective April 1, 2020 (the "**Penalty Interest**"). The Penalty Interest is to be paid in cash monthly, and is due while the balance of the loan exceeds C\$20 million. There is also an instalment payment plan whereby the Company would be required to make monthly payments if the amount of the loan exceeds C\$20 million after July 1, 2021, or if the loan exceeds C\$15 million after January 1, 2022 (the "**Installment Plan**"). The Company further agreed to re-price the 8 million warrants previously issued to the lender, subject to shareholder approval. This repricing is subject to shareholder and Stock Exchange approval, as at December 31, 2021 and up to the date of these financial statements, the Company has not yet set a date for the shareholder meeting to approve the repricing of the warrants.

As at December 31, 2020, the Company was in compliance with all covenants associated with the subordinated debt. However, there is no genuine possibility that the Company will succeed in compliance with the net debt to TTM EBITDA, working capital and net debt to total proved reserves covenants as at March 31, 2021 and thereafter. Accordingly, the debt is classified as a current liability as at December 31, 2020. On June 30, 2021, the Company received a waiver in respect of this covenant breach.

On June 30, 2021, the Company and lender agreed to restructure the loan agreement (the "**2021 Restructuring**"). Under the terms of the 2021 Restructuring, the lender waived financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA for the remainder of 2021. Financial covenants in respect of working capital have been eliminated for the remainder of the loan term. Pursuant to the 2021 Restructuring, the SubDebt is subject to the following covenants for 2021 (a) the Company must secure additional capital in the form of new equity for a cumulative amount equal to or greater than C\$8 million on or before September 30, 2021 ("**2021 Funding Covenant**") and; (b) measured at the end of each fiscal quarter maintaining the Company's Alberta Energy liability management ratio above 2.0/1.0 ("**LMR Covenant**"); and (c) net debt to total proved reserves ratio not to exceed 0.75:1.0 as at December 31, 2021; and (d) a C\$2.2 million principal payment on or before August 31, 2021 and a C\$2.2 million principal payment on or before September 30, 2021, (together, the "**2021 Principal Payments**"). The 2021 Principal Payment deadline was subsequently extended to December 31, 2021. Pursuant to the 2021 Restructuring, the PIK Interest and Penalty Interest payments will terminate when the loan balance is below C\$20 million, and the loan interest rate will reduce to 10% when the loan balance is below C\$15 million.

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13 LONG TERM DEBT (Continued)

(a) Subordinated debt (Continued)

Additionally, payments or distributions to any related party are subject to consent of the lender unless the following conditions are satisfied: the loan balance is equal to or less than C\$15 million; or if the loan balance is less than C\$17.5 million, but greater than C\$15 million, the Debt to Trailing EBITDA Ratio shall be less than 3.5:1.0 at such time, and, in either case, any payment or distribution shall only be permitted where no pending event of default or event of default has occurred (collectively, the “**Insider Repayment Restrictions**”).

On November 30, 2021, the Company paid an aggregate of C\$4.38 million, comprised of the 2021 Principal Payments and all accrued interest as of the same date and the lender confirmed the loan interest would revert to 12% and no further PIK interest would be incurred. As at December 31, 2021 the Company was in compliance with all covenants associated with the SubDebt.

On March 11, 2022, the Company and lender agreed to restructure the loan agreement (the “**2022 Restructuring**”). Under the terms of the 2022 Restructuring, financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA have been waived for the remainder of the loan term. The Company is obligated to make a principal payment of C\$2.5 million on or before June 30, 2022, a principal payment of C\$2.5 million on or before December 31, 2022 and a principal payment of C\$1.0 million on or before March 31, 2023.

(b) Shareholder loans

On December 23, 2019, Jixing advanced C\$0.675 million to the Company (the “**2019 Shareholder Loan**”). The full proceeds of the 2019 Shareholder Loan were applied to amounts due in respect of the Contract (refer to Note 12). The 2019 Shareholder Loan had an initial 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 C\$0.6 million fair value of the 2019 Shareholder Loan as at December 31, 2019, the Company applied an effective interest rate of 5.97%, comprised of 4% base plus 1.97% Canadian Dealer Offered Rate (“**CDOR**”). The residual of C\$0.07 million was recorded to Contributed Surplus (refer to Note 16). On April 27, 2021, the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan to December 23, 2022, and on December 31, 2021 the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan to December 23, 2023.

On June 2, 2020, a Persta director advanced C\$2 million to the Company (the “**2020 Shareholder Loan**”). The proceeds of the 2020 Shareholder Loan were used for working capital and general corporate purposes. The 2020 Shareholder Loan had an initial 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 C\$1.85 million 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 (refer to Note 16). On December 31, 2021, the Company and director agreed to extend the term of the 2020 Shareholder Loan to June 2, 2023.

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13 LONG TERM DEBT (Continued)

(b) Shareholder loans (Continued)

On September 1, 2021, the Company and a Persta director arranged a loan facility for up to C\$3 million (the “**2021 Shareholder Loan**”). C\$1.5 million was advanced to the Company on the same day, the remaining C\$1.5 million was advanced to the Company on October 27, 2021. The 2021 Shareholder Loan matured on December 31, 2021, subject to the Insider Repayment Restrictions. The 2021 Shareholder Loan is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company’s sole discretion subject to the Insider Repayment Restrictions. As at December 31, 2021, the 2021 Shareholder Loan is carried at its face value as a Current Liability.

14 DECOMMISSIONING LIABILITIES

C\$	As at December 31, 2021	As at December 31, 2020
Balance, beginning of year	1,947,832	2,084,399
Liabilities settled	(119,002)	(58,614)
Liabilities incurred	86,876	—
Change in estimate	473,197	(97,972)
Accretion expense (Note 22)	32,460	20,019
Balance, end of year	2,421,363	1,947,832
Current	170,526	205,836
Long term	2,250,837	1,741,996

The total future decommissioning obligations were estimated based on the Company’s net ownership interest in petroleum and natural gas assets including well sites, gathering systems and facilities, the estimated costs to abandon and reclaim the petroleum and natural gas assets and the estimated timing of the costs to be incurred in future periods. As at December 31, 2021, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations to be approximately C\$5 million (2020: C\$2.6 million) which will be incurred between 2022 and 2067. The majority of these costs will be incurred by 2040. As at December 31, 2021, an average risk free rate of 2% (2020: 1.1%) and an inflation rate of 2% (2020: 0.7%) were used to calculate the decommissioning obligations.

NOTES TO THE FINANCIAL STATEMENTS

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15 OTHER LIABILITIES

C\$	As at December 31, 2021	As at December 31, 2020
Accrued compensation per Phantom Unit Plan ¹	506,386	258,944
Other payables	92,464	92,464
Total	598,850	351,408

(1) In December 2019, the directors agreed that upon ceasing to be a member of the Board the cash redemption value of their Phantom Units would be paid by the Company not less than 366 days after the Director Termination Date. As at December 31, 2021 and 2020, the Phantom Unit Plan amounts owing are held as other liabilities. In prior years, the cash redemption value of the Phantom Units was due on the Director Termination Date. Refer to Note 20 for additional disclosures in respect of the Phantom Unit Plan.

For the years ended December 31, 2021 and 2020, other payables are primarily comprised of office renovation and rent inducement expenditures.

16 SHARE CAPITAL

(a) Authorized:

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

(b) Issued:

	Common Shares	Amount C\$
At January 1, 2020	301,886,520	210,366,683
Shares issued for cash	60,000,000	3,060,000
At December 31, 2020	361,886,520	213,426,683
At January 1, 2021	361,886,520	213,426,683
Shares issued for cash	36,000,000	4,608,100
Allocation to contributed surplus for shares issued above market value		(2,048,000)
Share issue costs		(64,452)
At December 31, 2021	397,886,520	215,922,331

On December 3, 2021, the Company completed a private placement issuing 16 million common shares at a price of HK\$0.80 per common share for gross proceeds of HK\$12.8 million (C\$2.05 million). At closing, the market price of the Company's common shares was HK\$0.43 per common share. The HK\$0.37 per common share in excess of market value totaling HK\$6 million (C\$0.96 million) was allocated to contributed surplus. No costs were incurred in respect of this placing. Net proceeds were applied towards the Company's subordinated debt as detailed in the Company's Management Discussion and Analysis (the "MD&A") for the year ended December 31, 2021 under the heading Liquidity and Capital Resources.

16 SHARE CAPITAL (Continued)

(b) Issued: (Continued)

On June 8, 2021 the Company entered into a subscription agreement with Dalian Yongli Petrochemical Ltd. (“**Dalian**”) (as subsequently amended as detailed in the Company’s announcement on October 28, 2021) pursuant to which the Company conditionally agreed to allot and issue, and Dalian conditionally agreed to subscribe for 55 million common shares at a minimum price of HK\$0.80 per common share. As Dalian is a connected person (as defined in the Listing Rules) of the Company, the subscription agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. Independent Shareholders’ approval was obtained at a special meeting of shareholders on October 15, 2021. On December 13, 2021, the Company completed the first tranche of the Dalian subscription agreement issuing 20 million common shares at a price of HK\$0.80 per common share for gross proceeds of HK\$16 million (C\$2.56 million). At closing, the market price of the Company’s common shares was HK\$0.46 per common share. The HK\$0.34 per common share in excess of market value totaling HK\$6.8 million (C\$1.09 million) was allocated to contributed surplus. C\$65k of costs were incurred in respect of this placing. Net proceeds were applied towards the Company’s subordinated debt, drilling a new well at the Company’s Basing area and working capital, as detailed in the Company’s MD&A for the year ended December 31, 2021 under the heading Liquidity and Capital Resources.

On December 23, 2020, the Company completed a private placement with Dalian issuing 60 million common shares at a price of HK\$0.30 per common share for gross proceeds of HK\$18 million (C\$3.06 million).

(c) Warrants:

On August 13, 2018, the Company issued 8 million warrants to the lender of 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 2020 Restructuring (see Note 13), the Company has agreed to re-price the 8 million share purchase warrants previously issued to the lender. This re-pricing is subject to Stock Exchange and shareholder approval. The new exercise price of the warrants will be calculated based on the volume weighted average price of the Common Shares on the Stock Exchange for the five trading days immediately preceding the date on which the re-pricing of the exercise price of the warrants is approved by the shareholders. As at December 31, 2021 and up to the date of these financial statements, the Company has not yet set a date for the shareholder meeting to approve the repricing of the warrants.

(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.

NOTES TO THE FINANCIAL STATEMENTS

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16 SHARE CAPITAL (Continued)

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

<i>HK\$ except number of options amounts</i>	Number of Options	Exercise Price
At January 1, 2020	—	—
Granted	3,780,000	\$0.52
At December 31, 2020 and December 31, 2021	3,780,000	\$0.52

The average trading price of the Company's common shares was HK\$0.43 per share for the year ended December 31, 2021. The following table summarizes stock options outstanding and exercisable at December 31, 2021:

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	3.36 years	\$0.52	1,247,400	\$0.52

The fair value of options granted during the year ended December 31, 2020 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	Year ended December 31, 2020
Exercise price per option	HK\$0.52
Risk-free interest rate	0.68%
Estimated hold period prior to exercise	5
Expected volatility	137.4%
Forfeiture rate	—
Dividend per share	—
Fair value per option	HK\$0.44
HK\$: C\$ foreign exchange rate	0.18
Fair value per option	C\$0.08

(e) Contributed surplus:

As at December 31, 2021, contributed surplus is comprised of the difference between the deemed fair value and gross value of the Shareholder Loans (refer to Note 13) at the date of initial recognition, share-based expenses incurred during the year and the allocation of shares issued during the year in excess of market value. As at December 31, 2020, contributed surplus is comprised of the difference between the deemed fair value and gross value of the Shareholder Loans (refer to Note 13) at the date of initial recognition and share-based expenses incurred during the year.

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17 REVENUE AND SEGMENT INFORMATION

Segment information

The Company's Chief Executive Officer (chief operating decision maker) reviews the financial information in order to make decisions about resources to be allocated to the segment and to assess its performance. No operating segment identified by the Chief Executive Officer has been aggregated in arriving at the reporting segments of the Company. For management's purpose, the Company has only one reportable operating segment, which is the oil and gas division. The division is principally engaged in oil and gas production, development, exploration and natural gas trading in western Canada for the years ended December 31, 2021 and 2020.

The Company's resources are integrated and as a result, no discrete operating segment financial information is available. Since this is the only reportable and operating segment of the Company, no further analysis thereof is presented. For the years ended December 31, 2021 and 2020, the revenue of the Company is generated from oil and gas production, natural gas trading and other income comprised of over-riding royalty payments and income generated from sources outside normal operations including rental income and subsidies.

Revenue summary

C\$	Year ended December 31,	
	2021	2020
Commodity sales from production		
Natural gas, natural gas liquids and condensate	19,391,638	12,419,834
Crude oil	2,088,646	849,059
Total commodity sales from production	21,480,284	13,268,893
Trading revenue (loss)		
Natural gas trading revenue	196,184	212,600
Natural gas trading cost	(207,301)	(203,987)
Total trading revenue (loss)	(11,117)	8,613
Other income		
Total other income	48,392	213,376

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.

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.

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For the year ended December 31, 2021
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17 REVENUE AND SEGMENT INFORMATION (Continued)

Revenue summary (Continued)

Other income is comprised of over-riding royalty payments and income generated from sources outside normal operations including rental income and subsidies. Over-riding royalty payments are periodically received from 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. For the year ended December 31, 2021, other income was primarily comprised of over-riding royalties. For the year ended December 31, 2020, the Company received payroll subsidies totaling C\$0.1 million from the Government of Canada for COVID-19 relief, C\$0.07 million from over-riding royalties and C\$0.04 million of rental income.

Information about major customers

During the year ended December 31, 2021 the Company had four active customers (2020: four active customers), of which one customer exceeded 10% of the Company's revenues (2020: one customer). The Company's largest customer accounted for 79% of revenues totaling C\$17 million (2020: 84%, C\$11.1 million), the second largest customer accounted for 10% of revenues totaling C\$2.1 million (2020: 9%, C\$1.2 million).

Geographical information

The Company's revenue from external customers and non-current assets are all located in Canada.

Timing of revenue recognition

For the years ended December 31, 2021 and 2020, all of the Company's revenues and commodity sales from production is recognized at a point in time.

18 IMPAIRMENT LOSSES AND WRITE-OFFS

C\$	Year ended December 31,	
	2021	2020
E&E write-offs (Note 9)	277,890	741,451
E&E impairment (Note 9)	—	3,595,184
PP&E impairment (recovery) (Note 10)	(4,590,560)	5,389,360
Total	(4,312,670)	9,725,995

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 cash generating unit ("CGU"), which is the smallest identifiable grouping of assets that generates largely independent cash inflows. E&E write-offs consist of land lease expires incurred during the period.

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18 IMPAIRMENT LOSSES AND WRITE-OFFS

2021 PP&E impairment (recovery)

At December 31, 2021, the Company identified indicators of impairment and/or impairment recovery in its PP&E assets in the Basing, Voyager and Dawson CGU's attributable to changes in commodity prices and well performance. The recoverable amount of the Basing, Voyager and Dawson CGU's was estimated based upon the higher of the value in use or fair value less costs of disposal. In each case, fair value less costs of disposal was used and the recoverable amount is within the Level 3 hierarchy of IFRS 13. The Company calculated the recoverable amount of the Basing and Voyager CGU's based on forecasted cash flows from proved plus probable reserves using a 10% and 12% before-tax discount rate with escalated prices and future development costs as obtained from the independent reserve report. Based on the assessment, the carrying amount of the Company's Basing CGU million was lower than its recoverable amount and the Company recognized an impairment recovery of C\$4.9 million as at December 31, 2021. At December 31, 2021, the carrying amount of the Dawson CGU was lower than its recoverable amount and the Company recognized an impairment recovery of C\$0.15 million. The carrying amount of the Voyager CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$0.5 million at December 31, 2021.

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

	As at December 31, 2021	
	Edmonton Oil (C\$/Bbl)	AECO Gas (C\$/mmbtu)
2022	86.82	3.31
2023	80.73	2.96
2024	78.01	2.80
2025	79.57	2.86
2026	81.16	2.92
2027	82.78	2.98
2028	84.44	3.04
2029	86.13	3.11
2030	87.85	3.17
2031	89.60	3.24
2032	91.40	3.30
2033	93.23	3.37
2034	95.09	3.44
2035	96.99	3.51
2036	98.93	3.58
2037 ⁽¹⁾	+2.0%/yr	+2.0%/yr

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

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18 IMPAIRMENT LOSSES AND WRITE-OFFS (Continued)

2021 PP&E impairment (recovery) (Continued)

The following table summarizes the recoverable amount and impairment reversal of the Basing CGU at December 31, 2021 and demonstrates the sensitivity of the estimated recoverable amount with respect to reasonably possible changes in key assumptions inherent in the estimate:

C\$	Recoverable Amount	Impairment (Recovery)	1% Change in Discount Rate	C\$2.50/bbl Change in Oil and NGL Price	C\$0.25/mcf Change in Gas Price
Basing CGU	40,869,952	(4,910,578)	1,460,000	350,000	4,600,000

The estimated recoverable amount of the Voyager and Dawson CGUs were not materially impacted from these possible changes in key assumptions.

2020 PP&E impairment

At March 31, 2020, the Company identified indicators of impairment in its PP&E assets in the Basing and Dawson CGU's attributable to declines in commodity prices. The recoverable amount of the Basing and Dawson CGU's was estimated based upon the higher of the value in use or fair value less costs of disposal. In each case, fair value less costs of disposal was used and the recoverable amount is within the Level 3 hierarchy of IFRS 13. In determining fair value, forecasted cash flows from proved plus probable reserves using a before-tax discount rate of 10% and 12%, with future development costs as obtained from the independent reserve report dated December 31, 2019, and escalated prices as detailed below. Based on the assessment, the carrying cost of the Basing CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$0.5 million. Based on the assessment, the carrying cost of the Dawson CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$0.1 million.

At December 31, 2020, the Company identified indicators of impairment in its PP&E assets in the Basing and Voyager CGU's attributable to declines in commodity prices and well performance. The recoverable amount of the Basing and Voyager CGU's was estimated based upon the higher of the value in use or fair value less costs of disposal. In each case, fair value less costs of disposal was used, and the recoverable amount is within the Level 3 hierarchy of IFRS 13. The Company calculated the recoverable amount of the Basing and Voyager CGU's based on forecasted cash flows from proved plus probable reserves using a 10% and 12% before-tax discount rate with escalated prices and future development costs as obtained from the independent reserve report. Based on the assessment, the carrying amount of the Company's Basing CGU million was lower than its recoverable amount and no impairment was required. Based on the assessment, the carrying amount of the Voyager CGU was higher than its recoverable amount and the Company recognized an impairment loss of C\$4.8 million.

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18 IMPAIRMENT LOSSES AND WRITE-OFFS (Continued)

2020 PP&E impairment (Continued)

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

For the year ended December 31, 2020	As at December 31, 2020		As at March 31, 2020	
	Edmonton Oil (C\$/Bbl)	AECO Gas (C\$/mmbtu)	Edmonton Oil (C\$/Bbl)	AECO Gas (C\$/mmbtu)
Remainder 2020	—	—	30.28	1.95
2021	52.36	2.58	46.51	2.25
2022	56.44	2.50	54.77	2.35
2023	59.96	2.40	62.26	2.45
2024	62.18	2.44	69.66	2.55
2025	63.48	2.49	71.07	2.65
2026	64.80	2.49	72.59	2.70
2027	66.14	2.54	74.15	2.76
2028	67.52	2.59	75.74	2.81
2029	68.93	2.65	77.35	2.87
2030 ⁽¹⁾	70.30	2.70	+2.0%/yr	+2.0%/yr
2031 ⁽¹⁾	+2.0%/yr	+2.0%/yr	—	—

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

The following table summarizes the recoverable amount and impairment of the Basing and Voyager CGU's at December 31, 2020 and demonstrates the sensitivity of the estimated recoverable amount with respect to reasonably possible changes in key assumptions inherent in the estimate:

C\$	Recoverable Amount	Impairment	1% Change in Discount Rate	C\$2.50/bbl Change in Oil and NGL Price	C\$0.25/mcf Change in Gas Price
Basing CGU	28,342,631	520,000	1,100,000	340,000	4,900,000
Voyager CGU	1,449,877	4,743,145	NS ₁	NS ₁	615,000

(1) No significant change in estimated recoverable amount.

The estimated recoverable amount of the Dawson CGU was not materially impacted from these possible changes in key assumptions.

2020 E&E impairment

On March 31, 2020, the Company identified indicators of impairment in its E&E assets in the Dawson CGU attributable to declines in commodity prices. The Company calculated the recoverable amount of the Dawson E&E CGU as the capitalized value of its undeveloped lands. 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 and the Company recognized an E&E impairment loss of C\$0.1 million.

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18 IMPAIRMENT LOSSES AND WRITE-OFFS (Continued)

2020 E&E impairment (Continued)

At December 31, 2020, the Company identified indicators of impairment in its E&E assets in the Basing CGU attributable to declines in commodity prices and regional well performance. At December 31, 2020, the Company assessed the recoverable amount of the Basing E&E CGU as the capitalized value of its undeveloped lands. Based on the assessment as at December 31, 2020, the carrying amount of the Company's E&E assets in respect of the Basing GCU was higher than the recoverable amount and the Company recognized an E&E impairment loss of C\$3.5 million.

19 PERSONNEL COSTS, REMUNERATION POLICY AND AUDITORS' REMUNERATION

C\$	Year ended December 31,	
	2021	2020
Salaries, wages and other benefits <i>(net of recoveries)</i>	1,674,062	1,638,654
Retirement benefits contribution	21,762	32,048
Total	1,695,824	1,670,702

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.

During the year ended December 31, 2020, the Company recovered C\$0.1 million of salary expenditures from Jixing pursuant to the Jixing Gas Handling and Voyager Compression Agreements as disclosed in Note 26b. No salary expenditures qualified for recovery during the year ended December 31, 2021.

Phantom Unit Plan for independent non-executive directors

The Company has in place a phantom unit plan for its independent non-executive directors effective March 10, 2017 and applied retrospectively started from February 26, 2016 (the "**Phantom Unit Plan**"). In order for the eligible directors to receive the phantom units issued under the Phantom Unit Plan (the "**Phantom Units**"), they need to complete a participation form prior to the commencement of each fee period (i.e. twelve-month period commencing January 1 and ending on December 31). Since 2016, all independent non-executive directors agreed to receive 60% of their C\$100,000 annual fee ("**Independent Directors' Fee**") in the form of phantom units, and the remainder in cash. For the years ended December 31, 2021 and 2020, the Independent Directors Fee was paid quarterly as C\$10,000 in cash and C\$15,000 under the Phantom Unit Plan (the "**Phantom Fee**"), with each independent non-executive director annually receiving C\$40,000 in cash and C\$60,000 in Phantom Units.

Under the terms of the Phantom Unit Plan, the Company calculates the Phantom Units dividing the Phantom Fee by the weighted average-trading price of the Company's common shares for the five days preceding each quarter end multiplied by the number of Phantom Units awarded during the quarter. For the years ended December 31, 2021 and 2020, total compensation accrued for each director under the Phantom Unit Plan is based on the total number of units awarded in the preceding quarters multiplied by the weighted average-trading price of the Company's common shares for the five days preceding the period end.

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

During the year ended December 31, 2021, the Company incurred C\$0.33 million of directors' compensation per the Phantom Unit Plan (2020: C\$0.04 million). As at December 31, 2021, the total accrued compensation for independent non-executive directors per the Phantom Unit Plan was C\$0.59 million (2020: C\$0.26 million).

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

Auditors' remuneration

Auditors' remuneration incurred during the years ended December 31, 2021 and 2020 is as follows:

C\$	Year ended December 31,	
	2021	2020
Audit services	382,200	256,000
Non-audit services	—	—

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20 DIRECTORS' EMOLUMENTS

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

Year Ended December 31, 2021:

C\$	Directors' Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payments	Total Emoluments
Executive directors						
Pingzai Wang ¹	—	330,000	—	—	46,667	376,667
Yongtan Liu ²	—	—	—	—	—	—
Independent non-executive directors						
Richard Orman ³	130,242	—	—	—	—	130,242
Larry Smith ^{3,4}	73,274	—	—	—	—	73,274
Peter Robertson ³	130,242	—	—	—	—	130,242
Total	333,758	330,000	—	—	46,667	710,425

- (1) Pingzai Wang was appointed Chief Executive Officer of the Company on March 4, 2020, and appointed as executive director of the Company on July 1, 2020. The amounts disclosed above for Mr. Wang are total of all emoluments he received during the year ended December 31, 2021.
- (2) Yongtan Liu does not receive any emoluments from the Company for his services. Refer to Note 26 for additional disclosures in respect of transactions with Mr. Liu and his affiliated entities.
- (3) Each of the independent non-executive directors' compensation is C\$0.1 million per year, C\$0.04 million paid in cash quarterly (C\$10,000 per quarter), and C\$0.06 million paid in Phantom Units quarterly (C\$15,000 per quarter) for total gross compensation of C\$0.3 million for the three independent non-executive directors. The directors' fees reflect the adjustment for the fair value of the Phantom Unit component as described in Note 19. During the year ended December 31, 2021, the Company incurred C\$0.33 million of directors' compensation per the Phantom Unit Plan as a result of the increase in the trading price of the Company's common shares. After giving effect to this expense, the Company incurred total independent non-executive directors' compensation expense of C\$0.45 million for the year ended December 31, 2021.
- (4) Larry Smith was appointed independent non-executive director of the Company on December 4, 2020.

For the year ended December 31, 2021, there was no amount paid or payable by the Company to the directors (except the directors' compensation per the Phantom Unit Plan) or any of the five highest paid individuals as set out in Note 21 below as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any remuneration during the year ended December 31, 2021.

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20 DIRECTORS' EMOLUMENTS (Continued)

Year Ended December 31, 2020:

C\$	Directors' Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payments	Total Emoluments
Executive directors						
Pingzai Wang ¹	—	275,000	—	—	48,889	323,889
Yongtan Liu ²	—	—	—	—	—	—
Non-executive director						
Yuan Jing ³	—	—	—	—	—	—
Independent non-executive directors						
Richard Orman ⁴	53,996	—	—	—	—	53,996
Bryan Pinney ^{4,5}	53,996	—	—	—	—	53,996
Peter Robertson ⁴	53,996	—	—	—	—	53,996
Total	161,988	275,000	—	—	48,889	485,877

- (1) Pingzai Wang was appointed Chief Executive Officer of the Company on March 4, 2020, and appointed as executive director of the Company on July 1, 2020. The amounts disclosed above for Mr. Wang are total of all emoluments he received during the year ended December 31, 2020.
- (2) Yongtan Liu does not receive any emoluments from the Company for his services. Refer to Note 26 for additional disclosures in respect of transactions with Mr. Liu and his affiliated entities.
- (3) Yuan Jing did not receive any emoluments from the Company for his services, and ceased to be a Non-executive director of the Company on July 1, 2020.
- (4) Each of the independent non-executive directors' compensation is C\$0.1 million per year, C\$0.04 million paid in cash quarterly (C\$10,000 per quarter), and C\$0.06 million paid in Phantom Units quarterly (C\$15,000 per quarter) for total gross compensation of C\$0.3 million for the three independent non-executive directors. The directors' fees reflect the adjustment for the fair value of the Phantom Unit component as described in Note 19. During the year ended December 31, 2020, the Company recovered C\$0.14 million of directors' compensation per the Phantom Unit Plan as a result of the decrease in the trading price of the Company's common shares. After giving effect to this recovery, the Company incurred total independent non-executive directors' compensation expense of C\$0.16 million for the year ended December 31, 2020.
- (5) Bryan Pinney resigned as independent non-executive director of the Company on December 4, 2020.

For the year ended December 31, 2020, there was no amount paid or payable by the Company to the directors (except the directors' compensation per the Phantom Unit Plan) or any of the five highest paid individuals as set out in Note 21 below as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any remuneration during the year ended December 31, 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

21 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, Pingzai Wang is a director the Company as at December 31, 2021 and 2020. His emoluments are disclosed in Note 20, the aggregate of the emoluments in respect of the other four individuals for each respective year is as follows:

C\$	Year ended December 31,	
	2021	2020
Salaries and other emoluments	696,780	1,134,246
Share-based compensation	70,933	74,311
Bonus	36,623	—
Total	804,336	1,208,557

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

Hong Kong dollars	Year ended December 31,	
	2021	2020
Nil–1,000,000	2	—
1,000,001–1,500,000	—	1
1,500,001–2,000,000	1	2
2,000,001–2,500,000	1	—
2,500,001–3,000,000	—	1
3,500,001–4,000,000	—	—
4,500,001–5,000,000	—	—

22 FINANCE EXPENSES

C\$	Year ended December 31,	
	2021	2020
Interest expense and financing costs:		
Subordinated debt (Note 13)	3,887,522	3,707,083
Right of use assets and leases (Note 11)	295,333	235,596
Commitment charges ⁽¹⁾	128,774	569,202
Capital payables (Note 12)	191,325	136,625
Other financing costs and bank charges	28,397	2,533
Accretion expenses (recovery):		
Decommissioning liabilities (Note 14)	32,460	20,019
Shareholder loans (Note 13)	(26,283)	92,392
Amortization of debt issuance costs	516,457	502,163
Loss on foreign exchange	607	297
Total finance expenses	5,054,592	5,265,910

- (1) For the year ended December 31, 2021, commitment charges are primarily comprised of costs associated with the Company's PSG facility (Note 27). For the year ended December 31, 2020, commitment charges are comprised of subordinated debt restructuring costs, termination fees incurred following the Company's cancellation of a warrant subscription agreement with an arms' length subscriber and costs associated with the Company's PSG facility.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

23 INCOME TAXES

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

C\$	Year ended December 31,	
	2021	2020
Loss before income taxes	(4,808,815)	(21,851,096)
Combined Federal and Provincial tax rate	23.0%	24.0%
Expected tax benefit	(1,106,027)	(5,244,263)
Increase in taxes resulting from:		
Non deductible expenses	27,305	29,848
Change in unrecognized deferred tax assets	(24,873)	2,039,169
Change in enacted tax rate and others	1,103,595	3,175,246
Income tax expense	—	—

During the year ended December 31, 2021, the blended statutory tax rate was 24% (2020: 24%). In the second quarter of 2019, the Alberta corporate income tax rate was reduced from 12 percent to eight percent over a four year period. The rate was reduced from 12% to 11% effective July 1, 2019 and will be further reduced by 1% on January 1 for each of the next three years until it reaches 8% on January 1, 2022.

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

C\$	Year ended December 31,	
	2021	2020
PP&E and E&E assets	81,728,141	84,502,615
Decommissioning obligations	2,421,363	1,947,832
Non-capital losses and other	38,988,671	30,566,426
Lease liabilities	2,743,606	2,631,628
Share issue costs	746,791	2,181,831
Total	126,628,572	121,830,332

At December 31, 2021, the Company has approximately C\$127 million of tax deductions, which include loss carry forwards of approximately C\$39 million that will begin to expire in 2037.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

23 INCOME TAXES (Continued)

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

On February 3, 2020, the Company received written confirmation that the CRA was vacating its previous assessment and eliminating all assessed withholding tax and associated interest and penalties relating to the debt settlement. As it was the Company's view that the NOO would be successful, a provision was not previously recorded in the Company's financial statements. Therefore, there was no impact to the financial statements relating to this matter for the years ended December 31, 2021 and 2020.

24 LOSS PER SHARE

C\$ except share amounts	Year ended December 31,	
	2021	2020
Loss and comprehensive loss	(4,808,815)	(21,851,096)
Weighted average number of common shares	364,100,219	303,365,972
Loss per share — basic and diluted	(0.01)	(0.07)

There were 3.78 million options and 8 million warrants excluded from the weighted-average share calculations for the years ended December 31, 2021 and 2020 because they were anti-dilutive.

25 DIVIDEND

The Board did not approve the payment of a dividend for the years ended December 31, 2021 and 2020.

26 RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

Key management compensation for the year ended December 31, 2021 totaled C\$1.02 million (2020: C\$1.6 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

26 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with directors

Directors' Fees and Phantom Unit Plan

Each of the independent non-executive directors' compensation is C\$0.1 million per year, C\$0.04 million paid in cash quarterly (C\$10,000 per quarter), and C\$0.06 million paid in Phantom Units quarterly (C\$15,000 per quarter) for total gross compensation of C\$0.3 million for the three independent non-executive directors. The directors' fees reflect the adjustment for the fair value of the Phantom Unit component as described in Note 19. During the year ended December 31, 2021, the Company incurred an additional C\$0.3 million of directors' compensation per the Phantom Unit Plan as a result of the increase in the trading price of the Company's common shares. After giving effect to this additional cost, the Company incurred total independent non-executive directors' compensation expense of C\$0.5 million for the year ended December 31, 2021 (2020: recovery of C\$0.14 million). As at December 31, 2021, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C\$0.5 million (2020: C\$0.26 million).

Jixing Gas Handling and Voyager Compression Agreements

On May 9, 2019, the Company entered into a gas handling agreement with Jixing Energy (Canada) Ltd. ("**Jixing**") (collectively the "**Jixing Gas Handling Agreement**"). Jixing is a private Canadian company controlled by Yongtan Liu, who was appointed as director and Chairman of the Company on December 18, 2019. Under the terms of the Jixing Gas Handling Agreement, the Company will transport its gas from the Voyager area through Jixing's gas gathering system. The agreement has a term of May 9, 2019 to December 31, 2044, however the Company's obligations commenced with the commissioning of production operations at Voyager on June 29, 2020. For the year ended December 31, 2021, the Company incurred total costs of C\$3.4 million in respect of this agreement (2020: C\$1.4 million).

On November 1, 2019, the Company and Jixing entered into a gas compression agreement (the "**Jixing Voyager Compression Agreement**"). The agreement has a term of November 1, 2019 to December 31, 2026, however the Company's obligations commenced with the commissioning of production operations at Voyager on June 29, 2020. For the year ended December 31, 2021, the Company incurred total costs of C\$2.3 million in respect of this agreement (2020: C\$1.1 million).

As at December 31, 2021, the Company has a total balance owing to Jixing of C\$4.89 million (2020: C\$nil). Pursuant to the 2021 Restructuring of the Company's debt (see Note 13), any payment made to a related party is subject to the Insider Payment Restrictions and prohibited unless the loan balance is equal to or less than C\$15 million; or if the loan balance is less than C\$17.5 million, but greater than C\$15 million, the Debt to Trailing EBITDA Ratio shall be less than 3.5:1.0.

Under the terms of the Jixing Gas Handling and Jixing Voyager Compression Agreements the Company will pay the following tariffs to Jixing annually from 2022 to 2044:

C\$	Monthly Gas Handling	Monthly Compression	Total Monthly	Total Annual
2022	327,892	146,000	473,892	5,686,704
2023	405,150	146,000	551,150	6,613,800
2024	501,875	146,000	647,875	7,774,500
2025	618,219	146,000	764,219	9,170,628
2026	765,740	146,000	911,740	10,940,880
2027–2044	433,438	—	433,438	5,201,256

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

26 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with directors (Continued)

Jixing Gas Handling and Voyager Compression Agreements (Continued)

Pursuant to the Jixing Gas Handling and Voyager Compression Agreements, past costs incurred by the Company in respect of the Voyager gas gathering system and pipeline projects will be repaid by Jixing, along with annual charges of overhead and administrative costs incurred by the Company on behalf of Jixing. During 2020, the Company recovered C\$1.72 million from Jixing, comprised of C\$1.57 million in PP&E past costs and C\$0.15 million of overhead and administrative expenses. In 2019, the Company recovered C\$1.3 million, comprised of C\$1.0 million in PP&E past costs and C\$0.3 million of E&E past costs. As at December 31, 2021 and 2020, all past costs associated with the Voyager gas gathering system and pipeline projects have been paid in full by Jixing.

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

Shareholder Loans

On December 23, 2019, Jixing advanced C\$0.675 million to the Company (the **"2019 Shareholder Loan"**). The full proceeds of the 2019 Shareholder Loan were applied to amounts due in respect of the Contract (refer to Note 12). The 2019 Shareholder Loan had an initial 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 C\$0.6 million fair value of the 2019 Shareholder Loan as at December 31, 2019, the Company applied an effective interest rate of 5.97%, comprised of 4% base plus 1.97% Canadian Dealer Offered Rate (**"CDOR"**). The residual of C\$0.07 million was recorded to Contributed Surplus (refer to Note 16). On April 27, 2021 the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan to December 23, 2022, and on December 31, 2021 the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan to December 23, 2023.

On June 2, 2020, a Persta director advanced C\$2 million to the Company (the **"2020 Shareholder Loan"**). The proceeds of the 2020 Shareholder Loan were used for working capital and general corporate purposes. The 2020 Shareholder Loan had an initial 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 C\$1.85 million 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 (refer to Note 16). On December 31, 2021, the Company and director agreed to extend the term of the 2020 Shareholder Loan to June 2, 2023.

On September 1, 2021, the Company and a Persta director arranged a loan facility for up to C\$3 million (the **"2021 Shareholder Loan"**). C\$1.5 million was advanced to the Company on the same day, the remaining C\$1.5 million was advanced to the Company on October 27, 2021. The 2021 Shareholder Loan matured on December 31, 2021, subject to the Insider Repayment Restrictions. The 2021 Shareholder Loan is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company's sole discretion subject to the Insider Repayment Restrictions. As at December 31, 2021, the 2021 Shareholder Loan is carried at its face value as a Current Liability.

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Overview

The Company has exposure to credit risk, liquidity and market risk from its use of financial instruments. This note presents information about the Company's exposure to each of the risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit risk

The Company's credit risk on cash arises from possible default of the counterparty. The Company limits its exposure to counterparty credit risk on cash by only dealing with financial institutions with high credit ratings.

Credit risk on trade and other receivables 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. The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. As at December 31, 2021, the Company's accounts receivables consisted of C\$2.1 million (2020: C\$1.7 million) due from purchasers of the Company's crude oil and natural gas and C\$0.3 million (2020: C\$0.3 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. In determining whether amounts past due are collectible, the Company will assess the nature of the past due amounts as well as the credit worthiness and past payment history of the counterparty. The Company has determined that no allowance for impairment was necessary as at December 31, 2021. The Company has also not written off any receivables during the years ended December 31, 2021 and 2020 as accounts receivables were collected in full. There are no material financial assets that the Company considers past due and at risk of collection. As at December 31, 2021 and 2020, all of the trade receivables were less than 90 days old.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions. The Company will attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month. The Company prepares annual budgets and updates forecasts for operating, financing and investing activities on an ongoing basis to ensure it will have sufficient liquidity to meet its liabilities when due (see Note 3).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(b) Liquidity risk (Continued)

The current challenging economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate profits in the future. The following are the contractual maturities of financial liabilities as at December 31, 2021:

C\$	Carrying amount	Total	1 year or less	1–2 years	2–5 years	5+ years
Accounts payable and acc. liabilities	17,144,921	17,144,921	17,144,921	—	—	—
Other liabilities	598,850	598,850	—	598,850	—	—
Lease liabilities	2,448,273	2,901,726	1,039,105	1,013,041	849,580	—
Shareholder loans ¹	5,507,007	5,675,000	3,000,000	2,675,000	—	—
Subordinated debt ²	19,847,954	20,550,000	5,000,000	15,550,000	—	—
Total	45,547,005	46,870,497	26,184,026	19,836,891	849,580	—

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

(2) Subordinated debt plus accrued and unpaid interest as per Note 13 which matures on May 15, 2023

The following are the contractual maturities of financial liabilities as at December 31, 2020:

C\$	Carrying amount	Total	1 year or less	1–3 years	4+ years
Accounts payable and acc. liabilities	8,898,738	8,898,738	8,898,738	—	—
Other liabilities	351,408	351,408	—	351,408	—
Lease liabilities	2,631,628	3,239,141	812,417	1,596,144	830,580
Shareholder loans ¹	2,533,290	2,675,000	—	2,675,000	—
Subordinated debt ²	23,142,661	23,935,299	—	23,935,299	—
Total	37,557,725	39,099,586	9,711,155	28,557,851	830,580

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

(2) Subordinated debt plus accrued and unpaid interest as per Note 13 which matures on May 15, 2023

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(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 has taken advantage of the low price environment and purchased from the market to fulfill the committed forward contracts for natural gas, saving operating costs and arbitraging from the price difference. The Company did not enter into any financial derivatives for the years ended December 31, 2021 and 2020.

Interest rate risk

As at December 31, 2021, the Company's debts are comprised of shareholder's loans, SubDebt and amounts owing under the Contract (refer to Note 12), which all carry a fixed interest rate. As at December 31, 2021 and 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 income (loss) for the years ended December 31, 2021 and 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 December 31, 2021 and 2020, the Company's overall net exposure to foreign exchange risk is as follows:

Expressed in C\$	Year ended December 31,	
	2021	2020
HKD Cash and cash equivalents	46,957	47,564
HKD Trade and other receivables	—	—
HKD Trade and other payables	(375,155)	(145,339)
Overall net exposure	(328,198)	(97,775)

Changes in the HKD/CAD foreign exchange rate of less than 10% would not materially change the Company's financial statements for the years ended December 31, 2021 and 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

(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.

The following represents the capital structure of the Company:

C\$	As at December 31, 2021	As at December 31, 2020
Long term debt (excluding current portion as per Note 13)	17,354,961	1,885,600
Other liabilities	598,850	351,408
Lease liabilities	2,448,273	2,631,628
Net working capital deficit	22,739,899	29,937,920
Net debt	43,141,983	34,806,556
Shareholders' equity	5,013,809	5,161,376
Total	48,155,792	39,967,932

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Overview (Continued)

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

On April 25, 2018, the Company obtained a PSG facility from Economic Development Canada ("EDC") totaling C\$4.4 million. On July 30, 2020 the aggregate PSG was reduced to C\$1.85 million. Under the terms of the PSG facility, EDC will guarantee qualifying letters of credit ("L/C") on behalf of the Company. Previously, these L/C's were cash collateralized, following approval by the EDC the requirement of the Company to hold cash to underwrite the L/C is relieved for the duration of the PSG approval. Under the terms of the PSG facility, the L/C guarantee period is the lesser of one year or the term of the L/C if less than 12 months. The guarantee can be renewed annually for long term L/C's subject to subsequent approval by the EDC. As at December 31, 2021, the Company has PSG coverage for the following L/C's:

Amount	Expiry
C\$1,100,000	June 13, 2023
C\$408,158	March 31, 2023

For the years ended December 31, 2021 and 2020, the Company incurred fees totaling C\$0.1 million in relation to the PSG facility.

The PSG facility has a 12 month term and must be renewed annually. The current term expires on September 24, 2022. If the facility is not approved for renewal, the PSG coverage will terminate at the expiry of the existing L/C's and the Company will seek alternative insurance arrangements to guarantee the L/C's or cash collateralize them.

28 COMMITMENTS

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business. The following table outlines the Company's commitments as at December 31, 2021:

C\$	Total	Less than 1 year	1–2 years	2–5 years	After 5 years
Transportation commitment ²	16,273,401	3,763,681	3,195,275	9,314,445	—
Jixing agreements (Note 26)	128,607,864	5,686,704	6,613,800	27,886,008	88,421,352
PSG facility ¹	1,508,158	—	1,508,158	—	—
Total	146,389,423	9,450,385	11,317,233	37,200,453	88,421,352

(1) The PSG facility commitment will only be due if the facility is not renewed and the L/C's are cash collateralized by the Company (see Note 27).

(2) The transportation commitment reflects the transfer of 47 MMcf/d effective April 1, 2022 as detailed below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2021
(Expressed in Canadian dollars unless otherwise indicated)

28 COMMITMENTS (Continued)

Transportation Commitment:

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

Description	Volume (MMcf/d)	Effective date	Expiring date	Duration
Persta FT-R with NGTL	8.00	2013-11-01	2021-10-31	8 years
Persta 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. Subsequent to the end of the year, the Company transferred 47 MMcf/d of its FT-R obligations to another issuer effective April 1, 2022.

29 SUBSEQUENT EVENT

SubDebt Restructuring

On March 11, 2022, the Company and lender agreed to restructure the loan agreement (the "**2022 Restructuring**"). Under the terms of the 2022 Restructuring, financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 13) have been waived for the remainder of the loan term. The Company is obligated to make a principal payment of C\$2.5 million on or before June 30, 2022, a principal payment of C\$2.5 million on or before December 31, 2022 and a principal payment of C\$1.0 million on or before March 31, 2023.

BOARD OF DIRECTORS

Executive Directors

Mr. Pingzai Wang
Mr. Yongtan Liu

Independent Non-executive Directors

Mr. Richard Dale Orman
Mr. Peter David Robertson
Mr. Larry Grant Smith

JOINT COMPANY SECRETARIES

Mr. Jesse David Meidl (*Company Chief Financial Officer*)
Ms. Chau Hing Ling (*FCG, HKFCG*)

AUTHORISED REPRESENTATIVES

Mr. Yongtan Liu
Ms. Chau Hing Ling (*FCG, HKFCG*)

AUDIT AND RISK COMMITTEE

Mr. Peter David Robertson (*Chairman*)
Mr. Richard Dale Orman
Mr. Larry Grant Smith

REMUNERATION COMMITTEE

Mr. Richard Dale Orman (*Chairman*)
Mr. Yongtan Liu
Mr. Larry Grant Smith

NOMINATION COMMITTEE

Mr. Yongtan Liu (*Chairman*)
Mr. Larry Grant Smith
Mr. Peter David Robertson

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STOCK CODE AND BOARD LOT

Stock Code: 3395
Board Lot: 1,000

WEBSITE

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PLACE OF SHARE LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited: 3395

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

“164 Co”	1648557 Alberta Ltd., a company incorporated in Alberta with limited liability
“ABCA”	the Business Corporations Act (Alberta), as amended, supplemented or as otherwise modified from time to time
“Alberta”	the Province of Alberta, Canada
“Alberta Energy Regulator” or “AER”	a corporation established under the Responsible Energy Development Act (Alberta), with a mandate to provide for the safe, efficient, orderly and environmentally responsible development of Alberta’s energy resources
“Articles”	the articles of incorporation of the Company, as amended, supplemented, restated or as otherwise modified from time to time
“ASC”	the Alberta Securities Commission
“Aspen”	Aspen Investment Holdings Ltd., a company incorporated in Alberta with limited liability and one of our Controlling Shareholders, the issued voting shares of which are held as to 80.78% by JLHY and 19.22% by Liyuan
“Board”	the board of Directors
“Canada”	Canada, its territories, its possessions and all areas subject to its jurisdiction
“Canadian dollars” or “CAD” or “C\$” or “CDN\$”	Canadian dollars, the lawful currency of Canada
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Common Shares” or “Share(s)”	the common shares of no par value in the capital of our Company (each as so designated pursuant to our Articles as at the Listing Date)
“Company”, “our Company”, “we”, “our”, “us” or “Persta”	Persta Resources Inc., a company incorporated with limited liability under the laws of Alberta on March 11, 2005
“Competent Evaluator”, “Competent Person” or “GLJ”	GLJ Petroleum Consultants Ltd., a competent person being a person that satisfies Rules 18.21 and 18.22 of the Listing Rules and a competent evaluator being a person undertaking valuations that satisfies Rule 18.23 of the Listing Rules, a limited liability company incorporated under the laws of Alberta and an Independent Third Party
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Aspen, JLHY, Mr. Jing, Liyuan

DEFINITIONS

“Crown”	Her Majesty in right of Alberta
“Crown Lease”	a lease of rights to crude oil or natural gas or both, issued by the Government of Alberta pursuant to applicable legislation
“Director(s)”	director(s) of our Company
“GAAP”	generally accepted accounting principles
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IFRS”	International Financial Reporting Standards, as issued by the International Accounting Standards Board
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is independent of and not connected with (within the meaning of the Listing Rules) any director, chief executive, substantial shareholder of our Company or any of their respective associates
“IPO”	initial public offering
“JLHY”	Ji Lin Hong Yuan Trade Group Limited (吉林省弘原經貿集團有限公司), a company incorporated in the PRC with limited liability and one of our Controlling Shareholders, 60% of the equity interest of which is held by Mr. Jing
“Listing”	the listing of the Shares on the Main Board
“Listing Date”	March 10, 2017, on which the Shares are listed and from which dealings in the Shares are permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Liyuan”	Changchun Liyuan Investment Co. Ltd. (長春市麗源投資有限公司), a company incorporated in the PRC with limited liability and one of our Controlling Shareholders, 98% of the equity interest of which is held by JLHY
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“NGTL”	NOVA Gas Transmission Ltd., a wholly-owned subsidiary of TransCanada Corporation, a company listed on the Toronto Stock Exchange (TSX: TRP) and the New York Stock Exchange (NYSE: TRP), an Independent Third Party
“NGTL System”	a pipeline system that receives, transports and delivers natural gas within Alberta and British Columbia in Canada operated by NGTL
“PNG Licence”	a petroleum and natural gas licence pursuant to which the Crown grants the holder the right to explore for and recover petroleum or natural gas resources, or both, pursuant to applicable legislation

“Properties”	the Leased Properties, Crown Leases and PNG Licences
“Prospectus”	the prospectus of the Company dated February 28, 2017
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	the holder(s) of the Share(s)
“Shareholders’ equity”	the Shares, retained earnings and other accumulated comprehensive income
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“WCSB”	the Western Canadian Sedimentary Basin
“%”	per cent

GLOSSARY OF TECHNICAL TERMS

“1P”	Proved Reserves
“2P”	Proved plus Probable Reserves
“3P”	Proved plus Probable plus Possible Reserves
“condensate”	a low-density, high API gravity liquid hydrocarbon phase that generally occurs in association with the production of natural gas
“crude oil”	the portion of petroleum that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric conditions of pressure and temperature
“developed non-producing Reserves”	Reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown
“developed producing Reserves”	Reserves that are expected to be recovered from completion intervals open at the time of the estimate. These Reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty
“development”	the phase in petroleum operations that occurs after exploration has proven successful, and before full-scale production
“development well”	a well drilled inside the established limits of a natural gas and oil reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive
“drilling location”	a location identified by the Competent Person in a project associated with a potential accumulation that is sufficiently well defined as a viable drilling target to move a project toward commercial production
“E&E”	exploration and evaluation
“E&P”	exploration and production
“economic limit”	the limit at which the net operating cash flows from a project, which may be an individual well, lease, or entire field, are negative
“EUR” or “estimated ultimate recovery”	an approximation of the quantity of oil or gas that is potentially recoverable or has already been recovered from a reserve or well
“exit production”	the rate of production of oil and/or gas as at the end of the relevant period

“exploration”	the initial phase in petroleum operations that includes generation of a prospect or play or both, and drilling of exploration wells
“geological and geophysical study” or “G&G Study”	a study of available geology and seismic, magnetic, gravity, and log data to learn or evaluate subsurface geology characteristic and hydrocarbon potential
“gross Reserves”	the working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests
“high estimate”	at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate
“horizontal drilling”	a drilling technique used in certain formations where a well is drilled vertically to a certain depth, after which the drill path builds to 90 degrees until it is in the target formation and continues horizontally for a certain distance
“IP” or “initial production”	the average amount of oil and/or gas produced in the first 24 hours of a well
“light crude oil”	crude oil normally measured at 30 API gravity or lighter
“low estimate”	at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate
“LNG”	liquefied natural gas
“LPG”	liquefied petroleum gas
“NGLs”	natural gas liquids
“payout”	the point at which all costs of leasing, exploring, drilling and operating have been recovered from production
“PNG rights”	the right to produce petroleum and natural gas from the subsurface formation
“Possible Reserves”	those quantities of natural gas and crude oil which by analysis of geosciences and engineering data are less likely to be recoverable than probable reserves
“Probable Reserves”	those quantities of natural gas and crude oil which by analysis of geosciences and engineering data are less likely to be recovered than proved reserves but more certain to be recovered than possible reserves
“producing well”	a well currently in production, or if shut in, previously in production and with reasonable certainty of resumption of production
“production”	the phase in petroleum operations that occurs after exploration and development phases and during which hydrocarbons are drained from an oil or gas reservoir

GLOSSARY OF TECHNICAL TERMS

“Prospective Resources”	those quantities of natural gas and crude oil estimated, as at a given date, to be potentially recoverable from undiscovered accumulations which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoir and under defined economic conditions, operating methods and government regulations
“Proved Reserves”	those quantities of natural gas and crude oil, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations
“PRMS”	the Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007, as amended from time to time
“PV10%”	the present value of estimated future net revenues before income tax to be generated from the production of Proved Reserves and discounted using an annual discount rate of 10%
“Reserves”	those quantities of natural gas and crude oil anticipated to be commercially recoverable by the application of development projects to known accumulations from a given date forward under defined conditions. Reserves are classified according to the degree of certainty associated with the estimates
“reservoir”	means a porous and permeable underground rock formation containing a natural accumulation of natural gas and crude oil that is confined by impermeable rock or water barriers, is separate from other reservoirs and is characterized by a single pressure system
“Resources”	Contingent Resources and/or Prospective Resources
“section”	an area of land measuring 1 mile long by 1 mile wide or 640 acres
“seismic”	a method by which the physical attributes in the outer rock shell of the earth are determined by measuring, with a seismograph, the rate of transmission of shock waves through the various rock formations
“seismic data”	detailed information obtained by carrying out seismic work
“working interest”	a proportional interest in a lease granting its owner the right to explore, develop and produce resources from a property and to receive revenues in proportion to the working interest over the property and incur costs in proportion to the working interest over the property
“WTI”	West Texas Intermediate, a grade of crude oil delivered at Cushing Oklahoma used as benchmark in oil pricing