Persta Resources Inc.

(incorporated under the laws of Alberta with limited liability)

(Stock Code: 3395)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED DECEMBER 31, 2019

The board (the "**Board**") of directors (the "**Directors**") of Persta Resources Inc. (the "**Company**") is pleased to announce the audited financial results of the Company for the year ended December 31, 2019 (the "**Year End Results**"). This announcement is issued by the Company pursuant to Rule 13.09 of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited and under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). The Board and its audit and risk committee have reviewed the Year End Results. Please see the attached announcement for further information.

By Order of the Board
Persta Resources Inc.
Yongtan Liu
Chairman

Calgary, April 29, 2020
Hong Kong, April 29, 2020

As at the date of this announcement, the executive Director is Mr. Yongtan Liu; the non-executive Director is Mr. Yuan Jing; and the independent non-executive Directors are Mr. Richard Dale Orman, Mr. Bryan Daniel Pinney and Mr. Peter David Robertson.

Persta Resources Inc.
Announcement of Results
for the Year ended December 31, 2019

Net loss increased to C$50.5 million
(Year ended December 31, 2018: C$7.28 million)

CALGARY/HONG KONG — Persta Resources Inc. (the "**Company**" or "**Persta**") (Stock code: 3395) today announced its annual financial results for the year ended December 31, 2019. The Company's annual financial statements, notes to the annual financial statements and management's discussion and analysis have been filed on SEDAR (www.sedar.com) and with The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and are available on the Company's website (www.persta.ca). All figures used in this release are in Canadian dollars ("**C$**") unless otherwise stated.

MESSAGE TO SHAREHOLDERS

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

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

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

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

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

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

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

FUTURE PROSPECTS

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

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

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

Financial and Operating Highlights

(Expressed in Canadian dollars)

Financial Highlights

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

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

Assets and Liabilities

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

ABOUT PERSTA RESOURCES INC.

The Company is a Calgary-based oil and gas exploration and development company focusing on liquids-rich gas and light crude oil in Western Canada with four core areas of operations: Alberta Foothills liquids-rich natural gas; Deep Basin Devonian natural gas; Peace River light oil and Progress-Montney liquids-rich natural gas.

For further enquiries, please contact:

Yongtan Liu
Chairman
Email: ir@persta.ca
Website: www.persta.ca

FORWARD LOOKING INFORMATION

Certain statements in this announcement 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 the 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 announcement are expressly qualified by reference to this cautionary statement.

Persta Resources Inc.

ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

(Expressed in Canadian dollars)

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

	Note	As at December 31, 2019 C$	As at December 31, 2018 C$
Shareholders' equity:			
Share capital	*16*	**210,366,683**	204,366,683
Warrants	*16*	**647,034**	647,034
Contributed surplus	*16*	**73,895**	—
Accumulated deficit		**(187,419,287)**	(136,953,053)
Total shareholders' equity		**23,668,325**	68,060,664
Total Liabilities and Shareholders' Equity		**59,063,797**	103,581,802
Going concern	*3*		
Commitments	*28*		
Subsequent events	*30*		

The accompanying notes form part of these annual financial statements.

Approved on behalf of the Board

"*Yongtan Liu*"
Yongtan Liu, *Director*

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

STATEMENT OF LOSS AND COMPREHENSIVE LOSS

For the year ended December 31, 2019

(Expressed in Canadian dollars)

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

The accompanying notes form part of these annual financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2019

(Expressed in Canadian dollars)

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

The accompanying notes form part of these annual financial statements.

STATEMENT OF CASH FLOWS

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

	Note	For the year ended December 31, **2019** *C$*	2018 *C$*
Cash provided by (used in):			
Operations			
Net loss		**(50,466,234)**	(7,279,461)
Items not involving cash:			
Depletion, depreciation and amortization		**5,165,339**	5,368,825
Non-cash finance expenses		**3,789,954**	209,660
Unrealized foreign exchange (gain) loss		**17,928**	(12,624)
Impairment losses and write-offs		**41,142,293**	3,753,163
Funds from (used in) operations		**(350,720)**	2,039,563
Changes in non-cash working capital	*7*	**(1,047,119)**	1,474,482
Total cash from (used in) generated from operating activities		**(1,397,839)**	3,514,045
Investing			
Expenditures on property, plant and equipment, net		**836,516**	(79,683)
Expenditures on exploration and evaluation assets, net		**(3,477,201)**	(7,882,275)
Investments		**—**	3,333,500
Net cash used in investing activities		**(2,640,685)**	(4,628,458)

	Note	For the year ended December 31, **2019** *C$*	2018 *C$*
Financing			
Proceeds from shareholder loan	*13*	**675,000**	—
Proceeds from debt	*13*	**—**	18,730,281
Proceeds from warrants, net		**—**	647,034
Proceeds from share issurance	*16*	**6,000,000**	—
Repayment of bank loan	*13*	**(4,164,243)**	(18,033,000)
Net cash from financing activities		**2,510,757**	1,344,315
Increase (decrease) in cash and cash equivalents		**(1,527,767)**	229,902
Effect of exchange rate changes on cash and cash equivalents		**(17,190)**	12,624
Cash and cash equivalents, beginning of year		**2,605,709**	2,363,183
Cash and cash equivalents, end of year		**1,060,752**	2,605,709
Supplementary information:			
Interest paid		**154,727**	2,358,125

The accompanying notes form part of these annual financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2019

(Expressed in Canadian dollars unless otherwise indicated)

1 CORPORATE INFORMATION

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

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

2 BASIS OF PREPARATION

(a) Statement of compliance

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

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing these financial statements, the Company has adopted all applicable new and revised IFRSs to the year ended December 31, 2019. The new accounting standards adopted for the year ended December 31, 2019 are set out in Note 4.

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

The accounting policies set out below have been applied consistently in all years presented in the financial statements (See Note 4(q)).

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

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

3 GOING CONCERN

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Joint arrangements

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

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

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

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

(c) Finance income and expenses

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

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

(d) Financial instruments

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

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

- ***Amortized cost***

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

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

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

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

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

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

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

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

- ***Lease arrangements***

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

(e) Exploration and evaluation assets

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

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

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

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

(f) Property, plant and equipment

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

Development and production assets

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

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

(g) Impairments

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

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

Value in use is estimated by consideration of the following:

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

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

FVLCD is estimated by consideration of the following:

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

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

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

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

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

(h) Reversal of impairment

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

(i) Depletion and depreciation

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

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

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

(j) Decommissioning liability

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

(k) Share capital

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

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

(l) Income taxes

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

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

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

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

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

(m) Related party transactions

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

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

(ii) has significant influence over the Company; or

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

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

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

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

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

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

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

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

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(n) Cash and cash equivalents

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

(o) Loss per share

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

(p) Leases

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

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

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

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

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

(q) New accounting policies adopted

IFRS 16 — Leases

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

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

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

Financial Statement Impact

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

5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Critical judgments in applying accounting policies

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

(i) *Identification of CGUs*

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

(ii) *Identification of impairment indicators*

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty for the year ended December 31, 2019 that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities:

(i) *Reserves*

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

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

(ii) *Decommissioning obligations*

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

(iii) *Impairment of non-financial assets*

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

(iv) *Liquidity*

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

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

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

(v) *Taxes*

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

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

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted funds from operations. During the years ended December 31, 2019 and 2018, the Company has not recorded any deferred tax assets due to the uncertainty of future taxable profits.

(vi) *Lease arrangements*

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

6 DETERMINATION OF FAIR VALUE

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

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

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

(b) Loans

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

(c) Financial derivative instruments

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

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

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

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

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

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

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

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

7 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

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

(b) Supplementary cash flows information

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

8 ACCOUNTS RECEIVABLE

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

(a) Aging analysis of trade receivables

As at December 31, 2019 and 2018, the aging analysis of trade receivables (included in accounts receivable), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

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

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

(b) Impairment of accounts receivable

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Company determines that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. No trade receivables, which are included in accounts receivable, are considered individually nor collectively to be impaired. No material balances of trade receivables are past due, and no impairment loss has been recognized for the years ended December 31, 2019 and 2018.

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

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

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

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

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

Based on the Company's accounting policy, once the technical feasibility and commercial viability of the extraction of resources in an area of interest are determined, E&E assets attributable to that area are assessed for impairment with any impairment loss recognized in profit or loss. The remaining carrying value of the relevant E&E assets is then reclassified as development and production assets within PP&E.

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

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

10 PROPERTY, PLANT AND EQUIPMENT

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

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

Depletion, depreciation and impairment charges

Depletion and depreciation, impairment of PP&E, and any reversal thereof, are recognized as separate line items in the statement of loss and other comprehensive loss. The depletion calculation for the year ended December 31, 2019 includes estimated future development costs of C$6.02 million (2018: C$24.5 million) associated with the development of the Company's proved plus probable reserves.

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

11 RIGHT OF USE ASSETS AND LEASES

(a) Right of use assets

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

(b) Leases

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

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

12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

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

During the year ended December 31, 2017, the Company entered into the Master Turnkey Drilling and Completion Contract (the "**Contract**") with an arm's length private company. Based on the Contract, the Company shall pay the invoices either within 90 days from the date of the invoice, or by installments as follows: (i) 15% due six months from the date of invoice, (ii) 35% due 12 months from the date of invoice and (iii) 50% due 24 months from the date of invoice. Any invoice balance outstanding for more than 90 days will bear interest at 4.24% per annum, calculated annually and prorated for the number of months outstanding with no compounding. For the year ended December 31, 2019, the Company accrued approximately C$0.26 million of interest (2018: C$nil) in respect of the Contract. The outstanding balances are unsecured. The Company has committed to use the services of the private company to drill and complete a minimum of five wells or certain penalties would be incurred should the Company fail to do so.

Aging analysis of trade payables and accrued liabilities

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

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

13 LONG TERM DEBT

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

(a) Bank loan

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

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

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

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

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

(b) Subordinated debt

On May 16, 2018, the Company completed a subordinated debt (the "**SubDebt**") financing with an arm's length lender (the "**SubLender**") totaling C$25 million. The SubDebt has a term of 60 months, and bears interest at 12% per annum, compounded and payable monthly. The Company has the option to prepay as follows: (i) after 12 months, the right to prepay C$10 million subject to a prepayment fee of 1% of the amount prepaid; and (ii) after 18 and up to 36 months, the right to prepay any SubDebt amount outstanding in tranches of C$5 million, subject to a prepayment fee of 3% of the amount prepaid; and (iii) after 37 months, the right to prepay any SubDebt amount outstanding in tranches of C$5 million, subject to a prepayment fee of 1% of the amount prepaid. An exit fee of C$0.75 million is payable when the SubDebt facility is repaid or at maturity on May 16, 2023. In connection with the SubDebt, the Company sold 8 million share purchase warrants to the SubLender for C$0.75 million. The Company completed an initial draw of C$20.0 million from the SubDebt at closing.

The SubDebt is secured by a general security agreement over all present and after-acquired property of the Company subject to the fixed and floating first priority held by the Lender. Prior to December 2018, the SubDebt was subject to the following covenants: (a) maintenance at the end of each fiscal quarter a working capital ratio of not less than 1.0/1.0; and (b) as measured at the end of each fiscal quarter, net debt to run rate EBITDA not exceeding 4.0/1.0 through the fiscal quarter ending March 2019, and 3.0/1.0 through the fiscal quarter ending March 31, 2020 and 2.5/1.0 thereafter; and (c) net debt to total proved reserves not exceeding 0.75/1.0 through the fiscal quarter ending March 31, 2019, and not exceeding 0.60/1.0 thereafter; and (d) maintaining the Company's Alberta Energy liability management ratio above 2.0/1.0. Pursuant to the SubDebt agreement, no later than September 30 in each year, the Company must enter into arrangements to protect against fluctuations in commodity prices for 80% of its forecast production volume from proved Developed Producing Reserves.

Effective December 31, 2018, the Company and SubLender amended the SubDebt agreement (the "**First Amending Agreement**") such that run rate EBITDA for the covenant calculation was changed to trailing twelve months ("**TTM**") EBITDA, and for the fiscal quarter ended December 31, 2018, net debt to TTM EBITDA would not exceed 4.75/1.0. Under the terms of the SubDebt agreement, "**net debt**" is defined as the consolidated debt of the Company, less cash held, and excluding debt defined as capital payables (Note 12). Under the terms of the First Amending Agreement, TTM EBITDA is defined as the annualized earnings before deduction of interest expenses/income, income taxes, depletion and depreciation, write-offs, unrealized hedging gains/losses and share-based compensation for the four most recent fiscal quarters.

In March 2019, the Company and SubLender further amended the SubDebt agreement (the "**Second Amending Agreement**"). The Second Amending Agreement eliminates the TTM EBITDA covenant for 2019, and implements a deferral of the monthly interest payable to the SubLender starting January 1, 2019 until the earlier of the repayment of the New Facility or January 1, 2020. The Company incurred a fee of C$1.0 million pursuant to the Second Amending Agreement. The fee was deemed to be incurred with the signing of the agreement, but capitalized as an increase of the SubDebt principal, such that the total amount owed under the SubDebt increased to C$21 million, and the total SubDebt available subject to SubLender approval increased to C$26 million. As such, no cash cost was incurred in respect of the fee in 2019. In total, C$1.25 million in costs were incurred in relation to the SubDebt and paid to the SubLender. These costs have been capitalised in long term debt, and amortised over the maturity of the SubDebt.

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

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

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

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

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

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

(c) Shareholder loan

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

14 DECOMMISSIONING LIABILITIES

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

The total future decommissioning obligations were estimated based on the Company's net ownership interest in petroleum and natural gas assets including well sites, gathering systems and facilities, the estimated costs to abandon and reclaim the petroleum and natural gas assets and the estimated timing of the costs to be incurred in future periods. As at December 31, 2019, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations to be approximately C$2.5 million which will be incurred between 2020 and 2067. The majority of these costs will be incurred by 2037. As at December 31, 2019, an average risk free rate of 1.76% (2018: 2.04%) and an inflation rate of 1.35% (2018: 2%) were used to calculate the decommissioning obligations.

15 OTHER LIABILITIES

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

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

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

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

16 SHARE CAPITAL

(a) Authorized:

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

(b) Issued:

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

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

(c) Warrants:

On August 13, 2018, the Company issued 8.0 million warrants to the SubLender for total consideration of C$0.75 million. The warrants have an exercise price of HK$3.16 per warrant and a term of 5 years. The fair value of these warrants was estimated to be C$0.75 million using the Black-Scholes-Merton option pricing model based on a volatility of 59.9%, risk-free interest rate of 2.12%, expected life of 5 years, no dividend yield and an exchange rate of HK$1 per C$0.1650. Costs of C$0.1 million were incurred for the sale of the warrants.

(d) Contributed surplus:

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

17 REVENUE

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

The Company sells its products pursuant to variable-price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis. The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

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

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

18 IMPAIRMENT LOSS

Impairment is assessed based on the recoverable amount compared with the asset's carrying amount to measure the amount of the impairment. In addition, where a non-financial asset does not generate largely independent cash inflows, the Company is required to perform its test at a CGU, which is the smallest identifiable grouping of assets that generates largely independent cash inflows.

PP&E Impairment

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

E&E Impairment

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

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

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

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

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

19 PERSONNEL COSTS, REMUNERATION POLICY AND AUDITORS' REMUNERATION

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

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

Phantom Unit Plan for independent non-executive directors

The Company has in place a phantom unit plan for its independent non-executive directors effective March 10, 2017 and applied retrospectively started from February 26, 2016 (the "**Phantom Unit Plan**"). In order for the eligible directors to receive the phantom units issued under the Phantom Unit Plan (the "**Phantom Units**"), they need to complete a participation form prior to the commencement of each fee period (i.e. twelve-month period commencing January 1 and ending on December 31). Since 2016, all independent non-executive directors agreed to receive 60% of their C$100,000 annual fee ("**Independent Directors' Fee**") in the form of phantom units, and the remainder in cash. For the years ended December 31, 2019 and 2018, the Independent Directors Fee was paid quarterly as C$10,000 in cash and C$15,000 under the Phantom Unit Plan (the "**Phantom Fee**"), with each independent non-executive director annually receiving C$40,000 in cash and C$60,000 in Phantom Units.

Under the terms of the Phantom Unit Plan, the Company calculates the Phantom Units dividing the Phantom Fee by the weighted average-trading price of the Company's common shares for the five days preceding each quarter end multiplied by the number of Phantom Units awarded during the quarter. For the year ended December 31, 2019, total compensation accrued for each director under the Phantom Unit Plan is based on the total number of units awarded in the preceding quarters multiplied by the weighted average-trading price of the Company's common shares for the five days preceding the period end.

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

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

Auditors' remuneration

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

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

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

20 DIRECTORS' EMOLUMENTS

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

Year Ended December 31, 2019:

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

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

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

For the year ended December 31, 2019, there was no amount paid or payable by the Company to the directors (except the directors' compensation per the Phantom Unit Plan) or any of the five highest paid individuals as set out in Note 21 below as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any remuneration during the year ended December 31, 2019.

Year Ended December 31, 2018:

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

(1) Each of the independent non-executive director's compensation is C$100,000 per year and the directors' fees reflect the adjustment for the fair value of the Phantom Unit component as described in Note 19.

For the year ended December 31, 2018, there was no amount paid or payable by the Company to the directors (except the directors' compensation per the Phantom Unit Plan) or any of the five highest paid individuals as set out in Note 21 below as an inducement to join or upon joining the Company or as compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any remuneration during the year ended December 31, 2018.

21 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one of them was a director (Le Bo) during both of the years ended December 31, 2019 and 2018, whose emolument is disclosed in Note 20. The aggregate of the emoluments in respect of the other four individuals are as follows:

	Year ended December 31,	
	2019	2018
	C$	*C$*
Salaries and other emoluments	**985,413**	994,385
Bonus	**—**	74,000
Retirement scheme contributions	**—**	12,969
Total	**985,413**	1,081,354

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

	Year ended December 31,	
	2019	2018
	Number of individuals	*Number of individuals*
Hong Kong dollars		
Nil–1,000,000	**—**	—
1,000,001–1,500,000	**3**	4
1,500,001–2,000,000	**1**	—
2,000,001–2,500,000	**—**	—
2,500,001–3,000,000	**—**	—
3,500,001–4,000,000	**—**	—
4,500,001–5,000,000	**—**	—

22 FINANCE EXPENSES

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

23 INCOME TAXES

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

	Year ended December 31,	
	2019	2018
	C$	*C$*
Loss before income taxes	**(50,466,234)**	(7,279,461)
Combined Federal and Provincial tax rate	**26.5%**	27%
Expected tax benefit	**(13,373,552)**	(1,965,454)
Increase/(decrease) in taxes resulting from:		
Non deductible expenses	**7,442**	2,246
Change in unrecognized deferred tax assets	**9,801,114**	1,958,423
Change in enacted tax rate and others	**3,564,996**	4,785
Income tax expense	**—**	—

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

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

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

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

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

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

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

24 LOSS PER SHARE

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

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

25 DIVIDEND

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

26 RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

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

(b) Transactions with directors

Directors' Fees and Phantom Unit Plan

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

Jixing Gas Handling and Voyager Compression Agreements

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

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

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

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

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

Shareholder Loan

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

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Overview

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

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from purchasers of the Company's crude oil and natural gas, and joint venture partners and the counterparties to financial derivative contracts. As at December 31, 2019, the Company's accounts receivables consisted of C$1.7 million (2018: C$1.2 million) due from purchasers of the Company's crude oil and natural gas and C$0.07 million (2018: nil) of other receivables.

Receivables from purchasers of the Company's crude oil and natural gas when outstanding are normally collected on the 25th day of the month following production. The carrying amount of accounts receivable and cash balances represents the maximum credit exposure. The Company has determined that no allowance for doubtful accounts was necessary as at December 31, 2019. The Company has also not written off any receivables during the year ended December 31, 2019 as accounts receivables were subsequently collected in full. There are no material financial assets that the Company considers past due and at risk of collection. As at December 31, 2019 and 2018, all of the trade receivables were less than 90 days old.

(b) Liquidity risk

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

The current challenging economic climate may lead to adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on the Company's results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate profits in the future (refer to Note 30).

The following are the contractual maturities of financial liabilities:

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

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

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

(c) Market risk

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

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for crude oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand. The Company may utilize commodity contracts as a risk management technique to mitigate exposure to commodity price volatility. The Company did not enter into any financial derivatives during the years ended December 31, 2019 and 2018.

Interest rate risk

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

Foreign currency risk

The Company manages foreign exchange risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or Hong Kong vendors as well as timing of transactions. The Company recognizes a foreign exchange gain/loss based on the revaluation of monetary items held in Hong Kong Dollars and the value changes with the fluctuation in the HKD/CAD exchange rates. As at December 31, 2019, the Company held HK$0.85 million (C$0.14 million based on the HKD/CAD exchange rate at the same date). Changes in the HKD/CAD foreign exchange rate of less than 10% would not materially change the Company's financial statements.

(d) Capital management

The Company's general policy is to maintain an appropriate capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Company's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations; to maintain a capital structure that allows the Company to favor the financing of its growth strategy using internally-generated cash flow and its debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying crude oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, bank debt, subordinated debt, other liabilities and working capital. To assess capital and operating efficiency and financial strength, the Company continually monitors its net debt.

The Company has not paid nor declared any dividends since its inception.

As part of its capital management process, the Company prepares budgets and forecasts, which are used by management and the Board of Directors to direct and monitor the strategy and ongoing operations and liquidity of the Company. Budgets and forecasts are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company.

The following represents the capital structure of the Company:

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

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

On April 25, 2018, the Company obtained a PSG from Economic Development Canada ("**EDC**") totaling C$4.4 million. On June 28, 2019 the aggregate PSG was reduced to C$2.5 million. Under the terms of the PSG facility, EDC will guarantee qualifying letters of credit ("**L/C**") on behalf of the Company. Previously, these L/C's were cash collateralized, following approval by EDC the requirement of the Company to hold cash to underwrite the L/C is relieved for the duration of the PSG approval. Under the terms of the PSG facility, the L/C guarantee period is the lesser of one year or the term of the L/C if less than 12 months. The guarantee can be renewed annually for long term L/C's subject to subsequent approval by the EDC. As at December 31, 2019, the Company has PSG coverage for the following L/C's:

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

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

28 COMMITMENTS

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

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

Transportation Commitment:

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

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

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

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

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

29 OTHER INCOME

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

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

On December 20, 2018, the Company monetized two in-the-money fixed price physical commodity contracts to forward sell natural gas in 2020 for C$752,000. The proceeds from the monetization were applied in full towards the bank loan. The remaining balance of other income is primarily comprised of over-riding royalty payments.

30 SUBSEQUENT EVENTS

COVID-19

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

SubDebt Restructuring

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

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

Persta Resources Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months and year ended December 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FORWARD LOOKING INFORMATION

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

OVERVIEW

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

FUTURE PROSPECTS

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

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

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

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

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

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

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

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

Selected Annual Information

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

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

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

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

Summary

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

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

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

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

Selected Quarterly Information

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

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

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

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

Summary

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

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

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

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

RESULTS OF OPERATIONS

Daily Production and Sales Volumes

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

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

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

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

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

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

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

Revenue

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

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

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

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

Commodity Prices

	Three months ended December 31,			**Year ended December 31,**		
	2019	2018	Change	**2019**	2018	Change
Natural gas *(C$/mcf)*						
Average market price (AECO)	**2.42**	2.31	5%	**1.66**	1.74	(5%)
Average forward sales price	**2.18**	2.52	(13%)	**2.24**	2.72	(18%)
Average trading price	**2.67**	1.79	49%	**1.95**	1.48	32%
Average sales price	**2.51**	2.54	(1%)	**2.05**	2.56	(20%)
Crude oil *(C$/bbl)*						
Average market price (Edmonton Par)	**68.06**	51.41	32%	**69.16**	70.92	(2%)
Average sales price	**69.51**	44.20	57%	**65.36**	65.97	(1%)

	Three months ended December 31,			Year ended December 31,		
	2019	2018	Change	**2019**	2018	Change
NGLs *(C$/bbl)*						
Average market price (Propane/Butane)	**31.09**	18.08	72%	**20.59**	29.94	(31%)
Average sales price	**34.64**	35.85	(3%)	**18.41**	35.54	(48%)
Condensate *(C$/bbl)*						
Average market price (Pentane Plus)	**69.44**	67.71	3%	**69.98**	80.23	(13%)
Average sales price	**71.29**	62.95	13%	**71.21**	75.58	(6%)

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

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

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

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

Royalties

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

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

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

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

Operating Costs

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

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

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

General and Administrative Costs ("G&A")

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

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

Finance Expenses

	Three months ended December 31,			Year ended December 31,		
C$'000s	**2019**	2018	Change	**2019**	2018	Change
Interest expense and financing costs	**877**	860	2%	**3,452**	2,697	28%
Amortization of debt issuance costs	**126**	60	110%	**502**	169	197%
Loss (gain) on foreign exchange	**18**	(13)	(238%)	**18**	(13)	(238%)
Accretion expense	**261**	(7)	(3,829%)	**291**	40	623%
Total finance expenses	**1,282**	900	42%	**4,263**	2,894	47%

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

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

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

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

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

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

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

Impairment Losses and Write-offs

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

Impairment is assessed based on the recoverable amount compared with the asset's carrying amount to measure the amount of the impairment. In addition, where a non-financial asset does not generate largely independent cash inflows, the Company is required to perform its test at a Cash Generating Unit ("**CGU**"), which is the smallest identifiable grouping of assets that generates largely independent cash inflows. Write-offs are attributable to land lease expiries, when a lease term is completed the Company writes off any remaining capitalized value in respect of the asset. Refer to Note 4 in the audited financial statements for the year ended December 31, 2019 for additional disclosures in respect of the Company's significant accounting policies.

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

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

*Exploration and Evaluation (“**E&E**”) Impairment*

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

Share-based Compensation

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

Other Income

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

On December 20, 2018, the Company monetized two in-the-money fixed price physical commodity contracts to forward sell natural gas in 2020 for C$752,000. The proceeds from the monetization were applied in full towards the bank loan. The remaining balance of other income is primarily comprised of over-riding royalty payments.

Net Loss and Comprehensive Loss

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

CAPITAL EXPENDITURES

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

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

LIQUIDITY AND CAPITAL RESOURCES

Capital management

The Company's general policy is to maintain an appropriate capital base in order to manage its business in the most effective manner with the goal of increasing the value of its assets and thus its underlying share value. The Company's objectives when managing capital are to maintain financial flexibility in order to preserve its ability to meet financial obligations; to maintain a capital structure that allows the Company to favor the financing of its growth strategy using internally-generated cash flow and its debt capacity; and to optimize the use of its capital to provide an appropriate investment return to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying crude oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, bank loans and subordinated debt, other liabilities and working capital. To assess capital and operating efficiency and financial strength, the Company continually monitors its net debt. As disclosed in Note 3 of Company's audited financial statements for the year ended December 31, 2019, the Company's future viability is dependent on its abilty to source additional capital on acceptable terms.

Capital structure of the company

The Company's capital structure is as follows:

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

Notes:

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

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

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

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

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

Performance services guarantee ("PSG") facility

On April 25, 2018, the Company obtained a PSG facility from Economic Development Canada ("**EDC**") totaling C$4.4 million. On June 28, 2019 the aggregate PSG was reduced to C$2.5 million. Under the terms of the PSG facility, EDC will guarantee qualifying letters of credit ("**L/C**") on behalf of the Company. Previously, these L/C's were cash collateralized, following approval by the EDC the requirement of the Company to hold cash to underwrite the L/C is relieved for the duration of the PSG approval. Under the terms of the PSG facility, the L/C guarantee period is the lesser of one year or the term of the L/C if less than 12 months. The guarantee can be renewed annually for long term L/C's subject to subsequent approval by the EDC. As at December 31, 2019, the Company has PSG coverage for the following L/C's:

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

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

Capital resources

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

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

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

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

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

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

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

Use of Proceeds from the Subscription

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

Notes:

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

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

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

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

SHARES, WARRANTS AND STOCK OPTIONS OUTSTANDING

Common Shares

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

Warrants

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

Stock Options

The Company has a stock option plan which was approved and adopted by the shareholders of the Company by ordinary resolution passed on June 8, 2018 ("**Stock Option Plan**"). No options were granted, exercised, cancelled by the Company or lapsed under the Stock Option Plan during the period from June 8, 2018 to December 31, 2019 and there were no outstanding options issued under the Stock Option Plan as at December 31, 2019 and up to the date of this MD&A.

COMMITMENTS

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business. For a detailed discussion regarding the Company's commitments and contingencies, please refer to the Company's audited financial statements and notes thereto for the year ended December 31, 2019. The following table summarizes the timing of the Company's commitments as at December 31, 2019:

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

Transportation commitment:

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

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

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

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

DIVIDEND

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

RELATED PARTY TRANSACTIONS

(a) Transactions with key management personnel

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

(b) Transactions with directors

Directors' Fees and Phantom Unit Plan

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

Jixing Gas Handling and Voyager Compression Agreements

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

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

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

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

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

Shareholder Loan

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

OFF-BALANCE SHEET TRANSACTIONS

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

PLEDGED ASSETS

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

CONTINGENT LIABILITIES

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

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

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

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

EVENTS AFTER THE REPORTING PERIOD

COVID-19

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

SubDebt Restructuring

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

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

FINANCIAL RISK MANAGEMENT

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are discussed in Note 27 of the Company's audited financial statements for the year ended December 31, 2019.

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

The Company did not enter into any financial derivatives contracts for the year ended December 31, 2019. For the year ended December 31, 2019, the Company experienced a foreign exchange loss of C$17,928. These foreign exchange losses are related to the revaluation of monetary items held in Hong Kong Dollars and the value changes with the fluctuation in the Hong Kong Dollars/Canadian Dollars exchange rates. The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they relate. The Company has not hedged its exposure to currency fluctuation and the Company currently does not have a foreign currency hedging policy, however, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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

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

HUMAN RESOURCES

The Company had 10 employees as at December 31, 2019 and 2018. The employees of the Company are employed under employment contracts which set out, among other things, their job scope and remuneration. Further details of their employment terms are set out in the employee handbook of the Company. The Company determines the employees' salaries based on their job nature, scope of duty, and individual performance. The Company also provides reimbursements, allowances for site visits and a discretionary annual bonus for the employees. Employee compensation for the year ended December 31, 2019 totaled C$1.6 million (2018: C$2.2 million).

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described in Note 5 of the audited financial statements for the year ended December 31, 2019.

CHANGES IN ACCOUNTING POLICIES

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

IFRS 16 — Leases

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

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

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

Financial Statement Impact

The recognition of the present value of minimum lease payments resulted in an additional C$3.05 million of right-of-use assets and associated lease liabilities at January 1, 2019. The Company has recognized lease liabilities in relation to lease arrangements previously disclosed as operating lease commitments under IAS 17 that meet the criteria of a lease under IFRS 16. Upon recognition, the Company's weighted average incremental borrowing rate used in measuring lease liabilities was 8.4%.

The nature of the Company's leasing activities includes equipment for the use of producing reserves from its oil and gas properties and office space. Refer to Note 11 in the audited financial statements for the values recognized upon implementation in each asset class.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

For the year ended December 31, 2019, Mr. Le Bo, Chief Executive Officer ("**CEO**"), and Mr. Jesse Meidl, Chief Financial Officer ("**CFO**") of the Company have designed, or caused to be designed under their supervision, disclosure controls and procedures ("**DC&P**") to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and quarterly filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

For the year ended December 31, 2019, Mr. Le Bo and Mr. Jesse Meidl, in their capacity as CEO and CFO of the Company respectively, have designed or caused to be designed under their supervision, internal controls over financial reporting ("**ICFR**") to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

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

Management has concluded that Persta's internal control over financial reporting was effective as of December 31, 2019. This assessment was based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

RISK FACTORS AND RISK MANAGEMENT

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

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

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

Persta monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations, royalty regime or taxation. In addition, Persta maintains a level of liability, business interruption and property insurance which is believed to be adequate for the Company's size and activities, but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims. See "Forward-Looking Information" in this MD&A and "Risk Factors" in the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2019. The AIF is available at *www.sedar.com*.

IMPACT OF NEW ENVIRONMENTAL REGULATIONS

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

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

NON-IFRS FINANCIAL MEASURES

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

Operating netback

	Three months ended December 31,			**Year ended December 31,**		
C$'000s	**2019**	2018	Change	**2019**	2018	Change
Oil and natural gas production	**4,897**	3,286	49%	**13,627**	15,364	(11%)
Net trading revenue	**12**	174	(93%)	**630**	661	(5%)
Royalties	**(1,119)**	(266)	320%	**(2,447)**	(1,164)	110%
Operating costs	**(1,510)**	(1,581)	(4%)	**(7,593)**	(5,354)	42%
Operating netback	**2,280**	1,614	41%	**4,217**	9,508	(56%)

Adjusted EBITDA

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

OTHER INFORMATION

DIVIDEND AND DIVIDEND POLICY

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

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

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

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2019 (year ended December 31, 2018: nil).

ANNUAL GENERAL MEETING

As of the date of this Announcement, the Company has not fixed a date for its annual general meeting ("**AGM**"). When a date is selected, the notice of the AGM, which constitutes part of a circular to shareholders, and proxy form, together with the annual report, will be despatched to shareholders in due course.

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.

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

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

Save as disclosed above, for the year ended December 31, 2019 (the "**Year**"), the Company has complied with the CG Code.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

REVIEW OF ANNUAL RESULTS

The annual results announcement of the Company for the year ended December 31, 2019, was reviewed by the audit and risk committee of the Company and approved by the Board. The financial figures in respect of the Company's financial statements for the year ended December 31, 2019 as set out in the announcement in relation to the unaudited annual results for the year ended December 31, 2019 have been compared by the Company's auditor, KPMG LLP, Chartered Professional Accountants (the "**Auditor**"), to the amounts set out in the Company's financial statements for the Year and the amounts were found to be in agreement in all material respects. The work performed by the Auditor in this respect did not constitute an audit, review or other assurance engagement in accordance with International Standards on Auditing, International Standard on Review Engagements or International Standard on Assurance Engagements issued by the International Auditing and Assurance Standards Board and consequently no assurance has been expressed by the Auditor.

PUBLICATION OF INFORMATION

This announcement is published on the websites of the Stock Exchange *(www.hkexnews.hk)* and the Company *(www.persta.ca)*.

This announcement is prepared in both English and Chinese and in the event of inconsistency, the English text of this announcement shall prevail over the Chinese text.