

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Persta Resources Inc., you should at once hand this circular with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for your information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of Persta Resources Inc..

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PERSTA RESOURCES INC.

(incorporated under the laws of Alberta with limited liability)

(HK stock code: 3395)

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

**Telephone: 1-403-355-6623
Fax: 1-403-440-1206**

PROPOSED ALTERATION IN THE TERMS OF EXISTING WARRANTS

Independent Financial Adviser



**NOTICE OF MEETING
and
MANAGEMENT INFORMATION CIRCULAR
and
PROXY STATEMENT**

with respect to the

Special Meeting of Shareholders

to be held on August 15, 2022 at **10:00 a.m.** (Calgary time)/August 16, 2022 at **00:00 a.m.**
(Hong Kong time) at Suite 3600, 888-3rd Street SW, Calgary, Alberta T2P 5C5, Canada

Dated: July 25, 2022

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Persta Resources Inc.

(incorporated under the laws of Alberta with limited liability)

(Stock Code: 3395)

**NOTICE OF SPECIAL MEETING
OF SHAREHOLDERS TO BE HELD ON AUGUST 15, 2022
AT 10:00 A.M. (CALGARY TIME)/
AUGUST 16, 2022 AT 00:00 A.M. (HONG KONG TIME)**

NOTICE IS HEREBY GIVEN that a special meeting (the “**Meeting**”) of the holders (the “**Shareholders**”) of common shares (the “**Common Shares**”) of Persta Resources Inc. (“**Persta**” or the “**Company**”) will be held at Suite 3600, 888-3rd Street SW, Calgary, Alberta T2P 5C5, Canada, on August 15, 2022 at 10:00 a.m. (Calgary time)/August 16, 2022 at 00:00 a.m. (Hong Kong time) for the following purposes:

1. to consider, and if thought advisable, approve and confirm the proposed alteration of the exercise price at which Crown Capital Partner Funding, LP (the “**Subscriber**”), the holder of a total of 8,000,000 unlisted transferable warrants issued by the Company to the Subscriber pursuant to a warrant certificate dated May 15, 2018, may subscribe for the Common Shares from HK\$3.16 to the average closing price of the Common Shares in the five trading days immediately prior to the Meeting (the “**Proposed Alteration**”), as more particularly described in the accompanying management information circular (the “**Circular**”); and
2. to transact such further or other business as may properly come before the Meeting or any adjournment or adjournments thereof.

The Circular which provides additional information relating to the matters to be dealt with at the Meeting will be despatched to Shareholders on or before July 25, 2022.

An explanatory statement as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), providing the requisite information reasonably necessary to enable the Shareholders to make an informed decision on whether to vote for or against the resolution relating to the Specific Mandate at the Meeting is set forth in the Circular.

Only Shareholders of record as at 4:30 p.m. (Hong Kong time) and 2:30 a.m. (Calgary time) on August 9, 2022 (Calgary time) (the “**Record Date**”) will be entitled to vote at the Meeting, unless that Shareholder has transferred any Common Shares subsequent to that date and the transferee Shareholder, not later than 10 days before the Meeting, establishes ownership of the Common

Shares and demands that the transferee's name be included on the list of Shareholders entitled to vote at the Meeting, in which case such transferee shall be entitled to vote such Common Shares at the Meeting. To ensure that there is no risk that any of the Common Shares will be voted twice, the transferee must provide written evidence to the Company including, without limitation, providing properly endorsed certificates evidencing the transfer of such Common Shares or having otherwise established ownership of such Common Shares, written evidence of the identification of the relevant transferor and written evidence that the relevant transferor has not exercised and will not exercise their right to vote either by proxy or in person at the Meeting. The Company may refuse the demand by a transferee to be included in the list of Shareholders entitled to vote at the Meeting if the transferee cannot demonstrate to the Company with sufficient certainty that the relevant Common Shares have not already been voted by proxy or will be voted by the relevant transferor at the Meeting.

Shareholders who receive the Circular and other accompanying Meeting materials from the Company's branch share registrar in Hong Kong, being Computershare Hong Kong Investor Services Limited, and who are unable to be present at the Meeting are requested to date and sign the form of proxy enclosed in the Circular and return it to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, in the enclosed envelope provided for that purpose, so that it is received during regular business hours no later than 48 hours (excluding Saturdays, Sundays and public holidays in Hong Kong) prior to the time of the Meeting, or any adjournment thereof. If a Shareholder is registered as a member of the Company on the register of members in Hong Kong on the Record Date, such Shareholder's records are currently maintained on the Hong Kong register and such Shareholder's proxy should be deposited in accordance with the instructions set out in this paragraph.

Shareholders who receive the Circular and other accompanying Meeting materials from the Company's principal share registrar in Canada, being Computershare Trust Company of Canada, and who are unable to be present at the Meeting, are requested to date and sign the form of proxy enclosed in the Circular and return it to Computershare Trust Company of Canada, Proxy Department, 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1, Canada, in the envelope provided for that purpose, so that it is received no later than 48 hours (excluding Saturdays, Sundays and holidays in Canada) prior to the time of the Meeting or any adjournment thereof. Registered shareholders may submit their voting instructions online at www.investorvote.com or by phone at 1-866-732-VOTE (8683) (toll free within North America) or 1-312-588-4290 (outside North America). Shareholders are cautioned that the use of mail to transmit proxies is at each Shareholder's risk. If a Shareholder acquired its Common Shares prior to the Record Date and is registered as a Shareholder on the register of Shareholders in Canada on the Record Date, such Shareholder's records are currently maintained on the Canadian register and such Shareholder's proxy should be deposited in accordance with the instructions set out in this paragraph.

In order to be valid, your proxy or voting instructions must be received in each case no later than 48 hours (excluding Saturdays, Sundays and holidays) before the Meeting or any adjournment thereof.

DATED at

Calgary, Alberta, as of July 25, 2022,

Hong Kong, as of July 25, 2022.

BY ORDER OF THE BOARD

Signed: “Yongtan Liu”
Yongtan Liu
Chairman of the Board

LETTER FROM THE BOARD



PERSTA RESOURCES INC.

(Incorporated under the laws of Alberta with limited liability)

(Stock Code: 3395)

Executive Directors

Mr. Yongtan Liu (*Chairman*)

Mr. Pingzai Wang (*Chief Executive Officer*)

Independent Non-Executive Directors

Mr. Richard Dale Orman

Mr. Peter David Robertson

Mr. Larry Grant Smith

Registered Office

15th Floor, Bankers Court

850-2nd Street SW

Calgary, Alberta T2P 0R8

Canada

Principal Place of Business in Hong Kong

Room 1901, 19/F

Lee Garden One

33 Hysan Avenue

Causeway Bay

Hong Kong

July 25, 2022

To: the Shareholders

Dear Sirs/Mesdames,

**(1) PROPOSED ALTERATION IN THE TERMS OF EXISTING WARRANTS;
AND
(2) NOTICE OF SPECIAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated May 15, 2018, May 31, 2018, August 14, 2018, August 15, 2018 and April 29, 2020 and the circular of the Company dated July 23, 2018 in relation to, among other things, (i) the entering into of the Original Loan Agreement between the Parties; (ii) the issue of the Warrants to the Subscriber under the Specific Mandate; and (iii) the amendments of the Original Loan Agreement and the proposed alteration in the terms of the Warrants.

The purpose of this Circular is to provide the Shareholders with, among other things: (i) a letter from the Board containing further details of the Proposed Alteration and the transactions contemplated thereunder; (ii) a letter of advice from the Independent Financial Adviser; (iii) a notice convening the Meeting; and (iv) other information as required under the Listing Rules.

DEFINITIONS

In this Circular, unless the context otherwise requires, the following expressions have the following meanings:

“ ABCA ”	Business Corporations Act (Alberta), as amended, supplemented or as otherwise modified from time to time;
“ Amended Loan Agreement ”	the amended and restated loan agreement dated April 28, 2020 entered into between the Parties in relation to the amendments of the Original Loan Agreement and the terms of the Warrants;
“ associate ”	has the meaning ascribed to it under the Listing Rules;
“ Board ”	the board of Directors;
“ C\$ ”	Canadian dollars, the lawful currency of Canada;
“ Canada ”	Canada, its territories, its possessions and all areas subject to its jurisdiction;
“ CCJGSA ”	長春市吉星車用氣有限公司 (Changchun City Jixing Gas Service for Auto Co. Ltd.*), a company incorporated under the laws of PRC with limited liability;
“ Circular ”	this management information circular;
“ Company ”	Persta Resources Inc., a company incorporated with limited liability under the laws of Alberta on 11 March 2005, the shares of which are listed on the Main Board of the Stock Exchange;
“ Common Share(s) ”	the common share(s) of no par value in the capital of the Company;
“ connected person(s) ”	has the meaning ascribed to it under the Listing Rules;
“ Crown ”	Crown Capital Partners Inc., a company incorporated with limited liability under the laws of Canada on 8 September 1999 and whose shares are listed on the Toronto Stock Exchange under the stock symbol CRWN;
“ Current Market Price ”	the average closing price of the Common Shares in the five Trading Days immediately prior to the date of the Meeting;
“ Dalian Yongli ”	大連永力石油化工有限公司 (Dalian Yongli Petrochemical Ltd.*), a company incorporated under the laws of PRC with limited liability;

“Director(s)”	the director(s) of the Company;
“Exercise Period”	the period during which the holder(s) of the Warrant(s) may exercise the subscription right(s) attaching to the Warrant(s);
“Exercise Price”	the exercise price per Warrant Share at which the holder of each Warrant may subscribe for a Warrant Share;
“Jixing”	Jixing Gas Holdings Limited, a company incorporated under the laws of the British Virgin Islands;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Financial Adviser” or “Dakin”	Dakin Capital Limited, a licensed corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, and the independent financial adviser in respect of the Proposed Alteration and the transactions contemplated thereunder;
“Independent Third Party(ies)”	person(s) who or company(ies) together with its/their ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, is/are third party(ies) independent of the Company and its connected person(s) in accordance with the Listing Rules;
“Issue Price”	C\$0.09375, being the issue price per Warrant;
“Latest Practicable Date”	July 22, 2022, being the last practicable date for ascertaining certain information contained in this Circular;
“Listing Committee”	has the meaning ascribed to it under the Listing Rules;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or as otherwise modified from time to time;
“Loan”	the term loan in the amount of C\$25 million granted by the Subscriber to the Company pursuant to the terms of the Original Loan Agreement;

“Meeting”	the special meeting of the Shareholders to be held on August 15, 2022 at 10:00 a.m. (Calgary time)/August 16, 2022 at 00:00 a.m. (Hong Kong time), or any adjournment thereof, and convened for the Shareholders to, among others, consider and, if thought fit, approve the Proposed Alteration and the transactions contemplated thereunder;
“Mr. Liu”	Mr. Yongtan Liu, an executive Director and chairman of the Board;
“Net Debt”	the consolidated debt of the Company outstanding on any date of determination minus the aggregate amount of cash and cash equivalents included in the cash accounts listed on the statement of financial position of the Company as of such date;
“Net Debt to Total Proved Reserves Ratio”	on any date of determination, the ratio of the Net Debt to the Total Proved Reserves on such date;
“New Warrant Certificate”	the new warrant certificate to be issued by the Company to the Subscriber upon the fulfilment and satisfaction of the conditions precedent under the paragraph “Conditions precedent”;
“Original Exercise Price”	HK\$3.16 (subject to adjustments), being the original Exercise Price per Warrant Share at which the holder of each Warrant may subscribe for a Warrant Share;
“Original Loan Agreement”	the loan agreement dated May 15, 2018 entered into between the Parties in relation to the grant of the Loan to the Company;
“Original Warrant Certificate”	the warrant certificate dated August 13, 2018 issued by the Company to the Subscriber;
“Parties”	the Company and the Subscriber;
“PIK Interest”	paid-in-kind interest;
“PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan;

“Prepayment Fees”	under the Original Loan Agreement, if C\$10 million of the Loan is prepaid after May 15, 2019, a payment of 1% of the amount repaid would be payable by the Company to the Subscriber; if the principal amount of the Loan is prepaid between November 15, 2019 and May 15, 2021, in one or more tranches of no less than C\$5 million, plus all accrued and unpaid interest owing on the principal amount of the Loan being repaid, a payment of 3% of the principal amount of the Loan being prepaid would be payable by the Company to the Subscriber; if the principal amount of the Loan is prepaid between May 15, 2021 and May 15, 2023, in one or more tranches of no less than C\$5 million, plus all accrued and unpaid interest owing on the principal amount of the Loan being repaid, a payment of 1% of the principal amount of the Loan being repaid would be payable by the Company to the Subscriber;
“Proposed Alteration”	the proposed alteration in the terms of the Warrants whereby the Exercise Price will be amended from HK\$3.16 (subject to adjustments) to the Current Market Price;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholder(s)”	the holder(s) of the Common Share(s);
“Specific Mandate”	the specific mandate granted by the Shareholders to the Directors at the special meeting of the Company held on August 13, 2018 (Calgary time) to exercise the powers of the Company for the allotment and issue of the Warrant Shares upon exercise of the subscription rights attaching to the Warrants pursuant to the terms of the Original Loan Agreement and the Warrant Certificate;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber”	Crown Capital Partner Funding, LP;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Total Proved Reserves”	the quantities of oil, natural gas, shale gas and natural gas liquids and other hydrocarbons of the Company which are determined to be the “Total Proved Reserves” by a firm of independent petroleum engineers of recognized North American standing in accordance with standard Canadian industry practice;

“Trading Day(s)”	the day(s) on which the Stock Exchange is open for trading and the Common Shares are freely available for trading; and
“TTM EBITDA”	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;
“Warrants”	the total of 8,000,000 unlisted transferable warrants issued by the Company at the Issue Price pursuant to the Original Warrant Certificate, each conferring rights entitling its holder(s) to subscribe for one Warrant Share at the Exercise Price during the Exercise Period;
“Warrant Share(s)”	the new Common Share(s) to be allotted and issued by the Company upon the exercise of the subscription right(s) attaching to the Warrant(s);
“%”	per cent.

For the purpose of illustration only and unless otherwise specified, conversion of C\$ to HK\$ in this circular is based on the exchange rate of C\$0.162 to HK\$1.00. Such conversion should not be construed as a representation that any amount has been, could have been, or may be exchanged at this or any other rate.

Certain figures set out in this Circular have been subject to rounding adjustments. Accordingly, figures shown as the percentage equivalents may not be an arithmetic sum of such figures. Any discrepancy in any table between totals and sums of amounts listed in this Circular is due to rounding.

* *For identification purpose only.*

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PERSTA RESOURCES INC.

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**Telephone: 1-403-355-6623
Fax: 1-403-440-1206**

(HK stock code: 3395)

MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT

GENERAL PROXY MATTERS

Solicitation of Proxies by Management

This management information circular (the “**Circular**”) is furnished in connection with the solicitation of proxies by the management of the Company for use at the Meeting to be held at Suite 3600, 888-3rd Street SW, Calgary, Alberta T2P 5C5, Canada, on August 15, 2022, at 10:00 a.m. (Calgary time)/August 16, 2022, at 00:00 a.m. (Hong Kong time), and any adjournment thereof. This Circular contains information as at the Latest Practicable Date unless otherwise noted. All references to “\$” in this Circular refer to the lawful currency of Canada, unless otherwise noted.

Only Shareholders of record as at 4:30 p.m. (Hong Kong time) and 2:30 a.m. (Calgary time) on August 9, 2022 (Calgary time) (the “**Record Date**”) will be entitled to vote at the Meeting, unless that Shareholder has transferred any Common Shares subsequent to that date and the transferee Shareholder, not later than 10 days before the Meeting, establishes ownership of the Common Shares and demands that the transferee’s name be included on the list of Shareholders entitled to vote at the Meeting, in which case such transferee shall be entitled to vote such Common Shares at the Meeting. To ensure that there is no risk that any of the Common Shares will be voted twice, the transferee must provide written evidence to the Company including, without limitation, providing properly endorsed certificates evidencing the transfer of such Common Shares or having otherwise established ownership of such Common Shares, written evidence of the identification of the relevant transferor and written evidence that the relevant transferor has not exercised and will not exercise their right to vote either by proxy or in person at the Meeting. The Company may refuse the demand by a transferee to be included in the list of Shareholders entitled to vote at the Meeting

if the transferee cannot demonstrate to the Company with sufficient certainty that the relevant Common Shares have not already been voted by proxy or will be voted by the relevant transferor at the Meeting.

Registered Shareholders are invited to attend the Meeting and vote their Common Shares at the Meeting. Shareholders can also appoint a proxy holder (who need not be a Shareholder) to attend and vote at the Meeting on the Shareholder's behalf and to convey a Shareholder's voting instructions. Solicitations of proxies will be primarily by mail, but some proxies may be solicited personally or by telephone, facsimile transmission or other electronic means by our officers, directors or employees at a nominal cost. The cost of solicitation will be borne by the Company.

Registered Shareholders who receive this Circular and other accompanying Meeting materials from the Company's branch share registrar in Hong Kong, being Computershare Hong Kong Investor Services Limited, and who are unable to be present at the Meeting are requested to date and sign the enclosed form of proxy and return it to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, in the enclosed envelope provided for that purpose, so that it is received during regular business hours no later than 48 hours (excluding Saturdays, Sundays and holidays in Hong Kong) prior to the time of the Meeting, or any adjournment thereof. If a Shareholder is registered as a member of the Company on the register of members in Hong Kong on the Record Date, such Shareholder's records are currently maintained on the Hong Kong register and such Shareholder's proxy should be deposited in accordance with the instructions set out in this paragraph.

Registered Shareholders who receive this Circular and other accompanying Meeting materials from the Company's principal share registrar in Canada, being Computershare Trust Company of Canada, and who are unable to be present at the Meeting, are requested to date and sign the enclosed form of proxy and return it to Computershare Trust Company of Canada, Proxy Department, 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1, Canada, in the enclosed envelope provided for that purpose, so that it is received no later than 48 hours (excluding Saturdays, Sundays and holidays in Canada) prior to the time of the Meeting or any adjournment thereof. Registered shareholders may submit their voting instructions online at www.investorvote.com or by phone at 1-866-732-VOTE (8683) (toll free within North America) or 1-312-588-4290 (outside North America). Shareholders are cautioned that the use of mail to transmit proxies is at each Shareholder's risk. If a Shareholder acquired its Common Shares prior to the Record Date and is registered as a Shareholder on the register of Shareholders in Canada on the Record Date, such Shareholder's records are currently maintained on the Canadian register and such Shareholder's proxy should be deposited in accordance with the instructions set out in this paragraph.

The individuals named in the enclosed form of proxy are officers of the Company (the "**Management Designees**"). **A Shareholder wishing to appoint some other person (who need not be a shareholder of the Company) to represent him or her at the Meeting has the right to do so, either by inserting that person's name in the blank space provided in the form of proxy and striking out the names of the Management Designees, or by completing another form of proxy, or by using the internet at www.investorvote.com or the telephone by calling 1-866-732-8683 (toll free within North America) or 1-312-588-4290 (outside North America).**

If you vote your proxy using the internet or the telephone, do not send back the form of proxy.

Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the Meeting or any adjournment thereof if they so wish.

Advice to Beneficial Holders of Common Shares

The information set forth in this section is of significant importance to you if you do not hold your Common Shares in your own name. Only proxies deposited by Shareholders whose names appear on our records as the registered holders of Common Shares can be recognized and acted upon at the meeting. If Common Shares are listed in your account statement provided by your broker, then in almost all cases those Common Shares will not be registered in your name on our records. Such Common Shares will likely be registered under the name of your broker or an agent of that broker.

Only registered holders of Common Shares or the persons they validly appoint as their proxies are permitted to vote at the Meeting. However, in many cases, Common Shares beneficially owned by a person (a “**Non-Registered Holder**”) are registered either: (i) in the name of an intermediary (an “**Intermediary**”) (including banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans) that the Non-Registered Holder deals with in respect of the Common Shares; or (ii) in the name of a clearing agency (such as the Canadian Depository for Securities Limited) of which the Intermediary is a participant.

If you do not hold your Common Shares in your own name, you may give permission to your broker or other intermediary to release your name and address to us so that we can send proxy related materials to you directly. Alternatively, you may instruct your broker or other intermediary who holds your Common Shares to not provide your name and address to us, in which case, your broker or other intermediary is required to send such materials to you. We currently do not provide proxy related materials directly to beneficial Shareholders and we assume the costs associated with the delivery of meeting materials to beneficial Shareholders.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the Meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your Common Shares are voted at the Meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered Shareholders. However, its purpose is limited to instructing the registered Shareholder how to vote on your behalf.

In Canada, most brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions Inc. (“**Broadridge**”). Broadridge mails a voting instruction form in lieu of a proxy provided by the Company. The voting instruction form will name the same persons as the Company’s proxy to represent you at the Meeting. You have the right to appoint a person (who need not be a Beneficial Shareholder of the Company), other than the persons designated in the voting instruction form, to represent you at the Meeting. To exercise this right, you should insert the name of the desired representative in the blank space provided in the voting instruction form. The completed voting instruction form must then be returned to Broadridge by mail or

facsimile or given to Broadridge by phone or over the internet, in accordance with Broadridge's instructions. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of Common Shares to be represented at the Meeting. If you receive a voting instruction form from Broadridge, you cannot use it to vote Common Shares directly at the Meeting. The voting instruction form must be completed and returned to Broadridge, in accordance with its instructions, well in advance of the Meeting in order to have the Common Shares voted.

Although you may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of your broker, you may attend the Meeting as a proxyholder for the registered Shareholder and vote your Common Shares in that capacity. If you wish to attend the Meeting and vote your own Common Shares, you must do so as proxyholder for the registered Shareholder. To do this, you should enter your own name in the blank space on the applicable form of proxy provided to you and return the document to your broker or the agent of such broker in accordance with the instructions provided by such broker well in advance of the Meeting.

The Canadian Securities Administrators have adopted a "notice-and-access" regime for shareholder meetings that permits issuers to send a reduced package of meeting materials to shareholders, together with the document required to cast their vote. We have elected not to use the "notice-and-access" regime for the Meeting and paper copies of such materials will be sent to all of our Shareholders.

Revocation of Proxy

A Shareholder who has submitted a proxy may revoke it at any time prior to the exercise thereof. In addition to revocation in any other manner permitted by law, a Shareholder who has given a proxy may revoke it by:

- (a) executing a proxy bearing a later date or by executing a valid notice of revocation, either of the foregoing to be executed by the Shareholder or by such person's authorized attorney in writing or, if such person is a corporation, under its corporate seal by an officer or attorney duly authorized, and by delivering the proxy bearing a later date to the Company's principal share register in Canada, being Computershare Trust Company of Canada at Proxy Department, 100 University Avenue, 8th Floor, Toronto, Ontario M5J 2Y1, Canada, in the enclosed envelope provided for that purpose, so that it is received no later than 48 hours (excluding Saturdays, Sundays or holidays in Canada) prior to the time of the Meeting or any adjournment thereof. Registered shareholders may also use the internet site at www.investorvote.com to transmit their voting instructions or vote by phone at 1-866-732-VOTE (8683) (toll free within North America) or 1-312-588-4290 (outside North America), or the Company's branch share registrar in Hong Kong, being Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as applicable, at least 48 hours (excluding Saturdays, Sundays or holidays in Hong Kong) prior to the time of the Meeting or any adjournment thereof, at which the proxy is to be used, or to the chairman of the Meeting on the day of the Meeting or any reconvening thereof, or in any other manner provided by law; or

(b) personally attending the Meeting and voting such person's Common Shares at the Meeting.

A revocation of a proxy will not affect a matter on which a vote is taken before the revocation.

Persons Making the Solicitation

This solicitation is made on behalf of the Company's management. We will bear the costs incurred in the preparation and mailing of the form of proxy, notice of annual general and special meeting, and this Circular. In addition to mailing forms of proxy, proxies may be solicited by personal interviews, or by other means of communication, by our directors, officers or employees who will not be remunerated therefor.

Exercise of Discretion by Proxyholders

The Common Shares represented by proxy in favor of management nominees will be voted on any poll taken at the Meeting. Where you specify a choice with respect to any matter to be acted upon, the Common Shares will be voted or withheld from voting on any poll in accordance with the specification so made. If you do not provide instructions, your Common Shares will be voted in favor of the matters to be acted upon as set out herein. The persons appointed under the form of proxy which we have furnished are conferred with discretionary authority with respect to amendments or variations of those matters specified in the form of proxy and notice of annual general and special meeting and with respect to any other matters which may properly be brought before the Meeting or any adjournment thereof. At the time of printing this Circular, we know of no such amendment, variation or other matter.

Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Company will announce the results of the poll in the manner prescribed in Rule 13.39(5) of the Listing Rules.

Counting the Votes

The Company's principal share registrar, Computershare Trust Company of Canada, and the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, will count and tabulate the proxies for Common Shares. This is done independently of the Company to preserve confidentiality in the voting process. Proxies are referred to the Company only in cases where a Shareholder clearly intends to communicate with management or when it is necessary to do so to meet the requirements of applicable law.

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

Voting Securities

The Company's authorized share structure consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares. As at the Record Date, the Company had 449,886,520 fully paid and non-assessable Common Shares and no preferred shares outstanding. Each Common Share carries the right to one vote at meetings of Shareholders.

Quorum

By-Law Number Two of the Company provides that if at least two persons present as registered Shareholders or as proxyholders for registered Shareholders, together of which is entitled to vote at such meeting, holding or representing in the aggregate not less than five per cent of the total number of Common Shares carrying the right to vote at such meeting, a quorum for the purposes of conducting a shareholders' meeting is constituted.

Principal Holders

To the knowledge of the Directors and executive officers of the Company, as at the Latest Practicable Date, the only persons who beneficially owned or controlled, directly or indirectly, Common Shares carrying 10% or more of the votes attached to the Common Shares entitled to be voted at the Meeting were as follows:

Name of Shareholder	Number of Common Shares	% of Common Shares
Aspen Investment Holdings Ltd. ⁽¹⁾	181,194,306	40.28%
Dalian Yongli ⁽²⁾	132,000,000	29.34%
HKSCC Nominees Limited ⁽³⁾	269,609,826 ⁽⁴⁾	59.93%

Notes:

- (1) Aspen Investment Holdings Ltd. ("**Aspen**") holds 181,194,306 Common Shares and is owned as to approximately 80.78% by 吉林省弘原經貿集團有限公司 (Ji Lin Hong Yuan Trade Group Limited*) ("**JLHY**") and 19.22% by 長春市麗源投資有限公司 (Changchun Liyuan Investment Co., Ltd.*) ("**Liyuan**"). JLHY is held as to 60% and 40% by Mr. Yuan Jing ("**Mr. Jing**") and Mr. Guang Jing (being Mr. Jing's brother), respectively. Liyuan is held as to approximately 98%, 1% and 1% by JLHY, Zhou Li Mei and Jing Yue Li, respectively.
- (2) Dalian Yongli holds 132,000,000 Common Shares and is directly wholly-owned by Mr. Zhang Zhong (張鐘).
- (3) HKSCC Nominees Limited is a subsidiary of the HKEX and its principal business is to act on behalf of other corporate or individual shareholders. All shares of Hong Kong listed companies, which are deposited into HKEX's Central Clearing and Settlement System, are registered in the name of HKSCC Nominees Limited.
- (4) Includes Common Shares held by Aspen, which have been transferred from the Canadian share register to the Hong Kong share register and have been deposited in HKEX's Central Clearing and Settlement System.

INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

Other than as disclosed below or elsewhere in this Circular, none of the Directors or executive officers of the Company, no proposed nominee for election as a director of the Company, none of the persons who have been Directors or executive officers of the Company since the commencement of the Company's last completed financial year and no associate or affiliate of any of the foregoing persons has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting.

As at the Latest Practicable Date, the Subscriber and its associates did not hold any Common Shares. To the best knowledge, belief and information of the Directors, having made all reasonable enquiries, no Shareholder is required under the Listing Rules to abstain from voting on the resolutions at the Meeting.

No Directors have or may be perceived to have a material interest in the Proposed Alteration or are required to abstain from voting on the relevant Board resolutions under the requirements of the Listing Rules.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

As at the date of this Circular, no Common Shares have been reserved for issuance under any equity compensation plans of the Company.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

For the purposes of this Circular, "**informed person**" means:

- (i) a director or executive officer of the Company;
- (ii) a director or executive officer of a person or company that is itself an informed person or subsidiary of the Company;
- (iii) any person or company who beneficially owns, directly or indirectly, voting securities of the Company or who exercises control or direction over voting securities of the Company, or a combination of both, carrying more than 10% of the voting rights attached to all outstanding voting securities of the Company, other than voting securities held by the person or company as underwriter in the course of a distribution; and
- (iv) the Company if it has purchased, redeemed or otherwise acquired any of its own securities, for so long as it holds any of its securities.

Other than as disclosed herein, none of the Directors or executive officers of the Company, nor any person who beneficially owns directly or indirectly or exercises control or direction over securities carrying more than 10% of the voting rights attaching to the Common Shares in the capital of the Company, nor any known associate or affiliate of these persons, had any material interest, direct or

indirect in any transaction within the three years before the date hereof which has materially affected the Company, or in any proposed transaction which has materially affected or would materially affect the Company.

BACKGROUND TO THE PROPOSED ALTERATION

Reference is made to the announcement of the Company dated May 15, 2018, May 31, 2018, August 14, 2018, August 15, 2018 and April 29, 2020 and the circular of the Company dated July 23, 2018 in relation to, among other things, (i) the entering into of the Original Loan Agreement between the Parties; (ii) the issue of the Warrants to the Subscriber under the Specific Mandate; and (iii) the amendments of the Original Loan Agreement and the proposed alteration in the terms of the Warrants.

On May 15, 2018, the Company entered into the Original Loan Agreement with the Subscriber, pursuant to which: (i) the Subscriber conditionally agreed to grant the Loan to the Company in the principal amount of C\$25 million for a term of five years; and (ii) the Company conditionally agreed to issue 8,000,000 Warrants to the Subscriber.

Pursuant to the Original Loan Agreement, each Warrant carries the rights to subscribe for one Warrant Share at the Original Exercise Price of HK\$3.16 (subject to adjustments). The subscription right(s) of the Warrants are exercisable from the initial advance of the Loan to five years following the date of issuance of the Original Warrant Certificate.

The maturity date of the Loan is May 15, 2023. The Subscriber can exercise the subscription right(s) attaching to the Warrant(s) until May 15, 2023. Upon expiry of the Exercise Period, any Warrants which have not been exercised will lapse and cease to be valid for any purpose.

The Warrant Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing issued and outstanding Common Shares as at the date of tender of the exercise form required under the Original Warrant Certificate. The holder(s) of the Warrants will not have any right to attend or vote at any meeting of the Company by virtue of them being the holders of the Warrants, or the right to participate in any distributions and/or offers of further securities made by the Company. The Warrants shall not be transferable by the registered holder of the Warrant Shares at any time unless (i) at least 30 months have passed since the issuance of the Warrant Certificate; or (ii) the Warrant Shares are transferred to an affiliate or subsidiary (as defined under the ABCA) of the registered holder of the Warrant Shares, and in each case, the registered holder of the Warrant Shares complies with the applicable laws of Alberta, Canada.

On August 14, 2018, the Shareholders, among other things, approved, ratified and confirmed the Original Loan Agreement and the transactions contemplated under the Original Loan Agreement, including the issue of the Warrants and the Original Warrant Certificate, and granted the Board a specific mandate to exercise the powers of the Company for the allotment and issue of the Warrant Shares upon exercise of the subscription rights attaching to the Warrants pursuant to the terms of the Original Loan Agreement and the Original Warrant Certificate.

ALTERATIONS OF THE ORIGINAL LOAN AGREEMENT

Subsequent to signing the Original Loan Agreement, the Western Canadian gas market experienced a significant downturn as aggregate natural gas production exceeded both domestic demand and storage capabilities. As at December 31, 2019 and March 31, 2020, the Company was not in compliance with its Net Debt to Total Proved Reserves Ratio covenant under the Original Loan Agreement, and received a waiver from the Subscriber in respect of these breaches. While the Subscriber had provided a waiver in respect of prior violations, repeated future breaches could result in the Subscriber not providing a waiver. In the event of failure of the Company to perform, keep or observe any of the financial covenants, which constitute an event of default under the Original Loan Agreement, and such breach was not waived by the Subscriber, the Subscriber can take ownership of all of the Company's properties and assets, since a lien on all of the present and after-acquired property of the Company was delivered to the Subscriber pursuant to the Original Loan Agreement, and all accrued interest and fees.

As the economic environment in May 2020 was further impacted by the outbreak of the novel coronavirus (COVID-19), the Company then anticipated that it would be in breach of its financial covenants under the Original Loan Agreement throughout the remainder of 2020. In response of the anticipated repeated financial covenant violations, the Parties agreed to restructure the Original Loan Agreement.

Amendments to the Original Loan Agreement on April 28, 2020

On April 28, 2020, the Parties entered into the Amended Loan Agreement, pursuant to which the Parties agreed to, among other things, amend certain terms of the Original Loan Agreement and, subject to the fulfillment of certain conditions precedent, alter the terms of the Warrants. The principal amendments to the Original Loan Agreement pursuant to the Amended Loan Agreement are summarized as follows:

- (1) financial covenants in respect of working capital, Net Debt to Total Proved Reserves and Net Debt to TTM EBITDA were removed until March 31, 2021;
- (2) the Prepayment Fees were waived;
- (3) establishment of additional PIK Interest charges of 2% per annum, payable until the Net Debt to TTM EBITDA ratio is below 3.0. The PIK Interest is non-cash and is accrued monthly and added to the principal of the Loan;
- (4) establishment of additional interest charges of 2% per annum compounded monthly. This interest is to be paid in cash monthly to the Subscriber, and is due until the balance of the Loan is paid down below C\$20 million;
- (5) establishment of a new funding covenant under which the Company must secure additional capital in the form new equity and/or subordinate debt for a cumulative amount equal to or greater than C\$2 million on or before June 30, 2020; and

- (6) establishment of an installment 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 exceeded C\$15 million after January 1, 2022. If the Loan exceeded these thresholds at each date, the monthly payment is determined by a formula in an amount equal to the product of $X \times Y$, where: $X = C\$23,000$ and $Y =$ the balance of the Loan at the month end date, expressed in millions of Canadian dollars (e.g, a balance outstanding of C\$25,001,001 would be expressed as 25.001001).

Amendments to the Original Loan Agreement on June 30, 2021

On June 30, 2021, the Parties agreed to restructure the Original Loan Agreement, whereby the financial covenants in respect of Net Debt to Total Proved Reserves and Net Debt to TTM EBITDA were waived for the remainder of 2021, and would be reinstated from March 31, 2022 onwards. Financial covenants in respect of working capital were also eliminated for the remainder of the term of the Loan. The Company was obligated to secure additional capital in the form of new equity for a cumulative amount equal to or greater than C\$8 million on or before September 30, 2021, and must make a C\$2.2 million principal payment on or before August 31, 2021 and a C\$2.2 million principal payment on or before September 30, 2021.

Amendments to the Original Loan Agreement on March 11, 2022

On March 11, 2022, the Parties agreed to restructure the Original Loan Agreement, whereby the financial covenant in respect of Net Debt to TTM EBITDA was waived for the remainder of the term of the Loan. The Company was obligated to make a principal payment to the Subscriber of C\$2.5 million on or before June 30, 2022, a principal payment of C\$2.5 million on or before December 31, 2022 and a principal payment of C\$1.0 million on or before March 31, 2023.

As at the Latest Practicable Date, the following financial covenants under the Original Loan Agreement (as altered by subsequent amendments) still remain:

- (1) Net Debt to Total Proved Reserves ratio — the Company shall maintain the ratio of its Net Debt to Total Proved Reserves below 0.75:1.0; and
- (2) licensee liability rating (“**LLR**”)/liability management rating (“**LMR**”) — the Company shall maintain a LLR/LMR of not less than 2.0:1.0.

As at the Latest Practicable Date, the Company has fully satisfied the principal payments required to be made by the Company to the Subscriber of C\$2.5 million on or before June 30, 2022 and of C\$2.5 million on or before December 31, 2022.

The Company has not received any waivers from the Subscriber in relation to further breaches of any financial covenants of the Loan. As at the Latest Practicable Date, the Company was not in breach of any financial covenants and/or in default of the Loan.

The various amendments to the Original Loan Agreement and the Stock Exchange's and the Shareholders' approval of the Proposed Alteration are not inter-conditional upon each other. However, as further disclosed under the paragraph "Reasons for the Proposed Alteration", the Proposed Alteration was the Company's effort to negotiate the repayment of the Loan with the Subscriber.

THE PROPOSED ALTERATION

Pursuant to the Amended Loan Agreement, the Parties proposed to amend the Exercise Price per Warrant Share from HK\$3.16 to the volume weighted average price of the Common Shares traded on the Stock Exchange for the five Trading Days immediately preceding the date of the Meeting. The volume weighted average price of the Common Shares is determined by calculating the summation of the value of each transaction (i.e. Common Share price multiplied by number of Common Shares traded) and then dividing it by the total Common Shares traded for the particular Trading Day.

On June 28, 2022, the Company and the Subscriber mutually agreed that the Exercise Price per Warrant Share should instead be amended from HK\$3.16 to the Current Market Price, which is calculated based on the average closing price of the Common Shares in the five Trading Days immediately preceding the date of the Meeting.

For illustration purpose only, based on the average closing price of the Common Shares in the five Trading Days immediately preceding the Latest Practicable Date, the new Exercise Price will be HK\$0.52, which represents:

- (1) a discount of approximately 3.70% to the closing price of HK\$0.54 per Common Share as quoted on the Stock Exchange on July 21, 2022, being the last full Trading Day prior to the Latest Practicable Date (the "**Last Trading Day**");
- (2) the average closing price of HK\$0.52 per Common Share as for the last five consecutive Trading Days up to and including the Last Trading Day;
- (3) a premium of approximately 1.17% to the average closing price of HK\$0.514 per Common Share as for the last 10 consecutive Trading Days up to and including the Last Trading Day;
- (4) a discount of approximately 1.70% to the average closing price of approximately HK\$0.529 per Common Share as for the last 30 consecutive Trading Days up to and including the Last Trading Day;
- (5) a discount of approximately 3.17% to the average closing price of approximately HK\$0.537 per Common Share as for the last 45 consecutive Trading Days up to and including the Last Trading Day; and
- (6) a premium of approximately 372.73% to the Company's unaudited net assets per Common Share of approximately HK\$0.11 as at March 31, 2022, based on the unaudited net assets attributable to the Shareholders of approximately C\$8,025,609 (equivalent to approximately HK\$49,540,796.30) as at March 31, 2022 and 449,886,520 Common Shares in issue.

Conditions precedent

The alterations to the terms of the Warrants shall be conditional upon and subject to, among other things, the fulfilment and satisfaction of the following conditions precedent:

- (1) the Stock Exchange's approval for the adjustment to the Exercise Price and the issue of the Warrants;
- (2) the Listing Committee's approval for the listing of, and permission to deal in, the Warrant Shares which shall fall to be issued by the Company upon exercise of the subscription rights attaching to the Warrants, if required;
- (3) the Shareholders having granted their approval regarding the new Exercise Price; and
- (4) all other necessary or required consents or approvals in connection with the Proposed Alteration having been obtained.

None of the above conditions precedent are waivable by the Company or the Subscriber. As at the date of this announcement, none of the above conditions precedent has been fulfilled.

The Company will provide a New Warrant Certificate reflecting the updated Exercise Price of the Warrants to the Subscriber as soon as reasonably practicable upon the fulfilment and satisfaction of the above conditions precedent.

INFORMATION ON THE PARTIES

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

The Subscriber is a limited partnership governed by the laws of Alberta, Canada. The Subscriber is principally engaged in financing transactions originated and managed by Crown, a specialty finance company focused on providing growth capital to successful Canadian and U.S. companies. Other than being a party to the Original Loan Agreement and a holder of the Original Warrant Certificate, to the best knowledge, information and belief of the Board and after making all reasonable enquiries, the Subscriber and its ultimate beneficial owner are third parties independent of and not connected with the Company and its connected persons.

Saved as disclosed herein, the Company, its close associates and the core connected persons of the Company (so far as is known to the Directors after making reasonable enquiries) had no dealings in the Warrants and the underlying securities to which the Warrants relate, during the period commencing three months prior to the announcement of the Warrant proposal (i.e. May 15, 2018) and ending on the date of this circular.

REASONS FOR THE PROPOSED ALTERATION

The Warrants were originally issued to the Subscriber in 2018 with the intention of providing potential future benefit for the Subscriber, if the price of the Common Shares exceeds the Original Exercise Price. The Original Exercise Price was equivalent to the price of the Common Shares issued pursuant to the Company's initial public offering on March 10, 2017. Subsequent to the issuance of the Warrants, the Common Share price has declined in response to the deteriorating economic environment. The closing price of the Common Shares traded at HK\$0.53 per Common Share on the Trading Day immediately prior to the announcement of the Company dated May 15, 2018, approximately an 83.2% discount to the Original Exercise Price of HK\$3.16. This discount provides the Subscriber with limited potential value in respect of the Warrants. The proposed re-pricing of the Warrants to the Current Market Price offers a better chance for future value to be received by the Subscriber, and aligns the Subscriber's interests with the Shareholders.

As the Warrants have already been granted to the Subscriber and the Subscriber is, and has been, the sole warrant holder, the Proposed Alteration does not result in any additional dilution to the Shareholders or impact to any warrant holders and will not put the Subscriber in a better position than the other Shareholders. The only impact from the Proposed Alteration is the amount of proceeds the Company will receive on exercise of the subscription right(s) attaching to the Warrant(s). Under the terms of the Original Loan Agreement, if all 8,000,000 Warrants were exercised, the Company would have received gross proceeds of HK\$25.2 million. If the Proposed Alteration is approved and all 8,000,000 Warrants are exercised, assuming an Exercise Price of HK\$0.52 per Warrant (being the average closing price of the Common Shares in the five trading days immediately preceding the Latest Practicable Date), the gross proceeds would be HK\$4.16 million, a difference of HK\$21.04 million. While this reduction is material, the loss of potential value from the exercise of the Warrants is comparatively insignificant to the financial implications of a potential default of the Loan. The Company intends to apply the net proceeds from the full exercise of the subscription rights attaching to the Warrants, after deducting the expenses payable by the Company in connection with the Proposed Alteration, towards general working capital purposes, which is in line with the proposal disclosed in the announcement of the Company dated May 15, 2018 and the circular of the Company dated July 23, 2018.

The Proposed Alteration was the Company's effort to negotiate the repayment of the Loan with the Subscriber to allow for additional time to improve the Company's business operations and financial position in order to repay the outstanding indebtedness and reduce its financial costs, and to enable the Company to navigate safely through this COVID-19 pandemic in hope of more stable times ahead. Taking into account the above factors, the Board, having critically reviewed the Company's situation, considers that the terms and conditions of the Proposed Alteration have been arrived at after arm's length negotiation between the Parties which are fair and reasonable, and are in the best interests of the Company and the Shareholders as a whole.

IMPLICATIONS OF THE LISTING RULES

Rule 15.02(2) of the Listing Rules provides that any issue or grant of warrants to subscribe for equity securities of an issuer must expire not less than one and not more than five years from the date of the issue or grant and must not be convertible into further rights to subscribe which expire less than one year or more than five years after the date of issue or grant of the original warrants.

In addition to the requirements of Rule 15.02(2) of the Listing Rules, paragraph 4(a) of the Practice Note 4 to the Listing Rules (“**Practice Note 4**”) provides that the Stock Exchange will not approve any proposal to alter the exercise price of existing warrants if the existing warrants do not have a positive intrinsic value (the “**Intrinsic Value Test**”). Paragraph 1 of Practice Note 4 defines “intrinsic value” as the average closing price of the underlying security for the preceding three months prior to the date of the application, less the exercise price.

Pursuant to paragraph 4(c) of Practice Note 4, any warrant proposal must be subject to the approval of shareholders and warrant holders in accordance with the provisions of the issuer’s constitutive documents and terms of the relevant warrant instrument respectively, and must be approved at such meetings by special resolution. For the purpose of paragraph 4(c) of Practice Note 4, on June 28, 2022, the Company and the Subscriber (i.e. the warrant holder) mutually agreed that the Exercise Price per Warrant Share should be amended from HK\$3.16 to the Current Market Price.

Assuming the Company obtains the requisite approval by a special resolution of the Shareholders at the Meeting, the Company is able to comply with all applicable provisions in the Practice Note 4 regarding the Proposed Alteration other than the Intrinsic Value Test mentioned above.

WAIVERS GRANTED IN RESPECT OF THE PROPOSED ALTERATION

Waiver from strict compliance with paragraph 4(a) of Practice Note 4 granted to the Company on May 20, 2020

In May 2020, the Company was unable to comply with paragraph 4(a) of Practice Note 4 since the Warrants did not have a positive intrinsic value. The Company applied to the Stock Exchange for, and was granted on May 20, 2020, a waiver from strict compliance with paragraph 4(a) of Practice Note 4.

Waiver from strict compliance with paragraph 4(a) of Practice Note 4 granted to the Company on June 2, 2022

The Company did not rely on the waiver granted in May 20, 2020 to proceed with the Proposed Alteration for the following reasons:

- (1) in the second half of 2020, the implementation of lockdown measures in many countries and territories to slow the spread of COVID-19, and a lower level of activity caused by the COVID-19-induced macroeconomic crisis, led to sharp decrease in natural gas and crude oil prices in North America. Faced with these unprecedented times of pandemic shocks and lockdowns, Canada’s natural gas and crude oil markets experienced historically low spot prices and high volatility. The Company’s management was actively monitoring the impact of

the COVID-19 pandemic on the Company's business and was in constant communication with the Subscriber to find an appropriate opportunity to proceed with the Proposed Alteration. The Subscriber, in view of the unstable crude oil and natural gas prices and continuing market volatility in 2020 and 2021, agreed with the Company to temporarily set aside the Proposed Alteration;

- (2) following KPMG LLP's resignation as the auditors of the Company in August 2020, the Company faced significant difficulties in finding and engaging a suitable Canadian qualified auditor that was capable of issuing, or willing to issue, an audit opinion in Hong Kong primarily due to the new requirement of the recognition of overseas auditors under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong), whereby all non-Hong Kong auditors intending to carry out a public interest entity audit engagement of a company listed on the Stock Exchange are required to be recognized by the Financial Reporting Council in Hong Kong. This process was further delayed due to interruptions and lockdowns caused by the outbreak of COVID-19 in Calgary, Canada between December 2020 to February 2021, which delayed the completion of the Company's financial statements for the financial year ended December 31, 2020 which in turn delayed the publication of the audited 2020 annual results. As a result, the Company's management had to devote significant amount of time and efforts to ensure compliance with the Listing Rules and that the delay in publishing the annual results would not lead to suspension of trading of the Common Shares. After several months of efforts to engage a suitable auditor to provide an audit opinion in both Canada and Hong Kong, the Company engaged BDO Limited Hong Kong on March 26, 2021; and
- (3) the successful completion of the placing of 60 million new Common Shares to Dalian Yongli on December 20, 2020 provided the Company with gross proceeds of HK\$18 million. This relieved the financial pressure of the Company and the immediate need to proceed with the Proposed Alteration.

Given the size of the Company and having fewer on-going operations than other energy companies, the Company is particularly susceptible to changes in energy prices. The Subscriber was of the view that positive changes in crude oil and natural gas prices would lead to better financial results, higher earnings and a steady increase in the valuation of the Company in the long-term. Given the recent increase in oil price and natural gas and against this backdrop, the Parties believed that this was a suitable time to proceed with the Proposed Alteration.

On the basis of the following, the Company has applied for, and the Stock Exchange has granted on June 2, 2022, a waiver from strict compliance with paragraph 4(a) of Practice Note 4:

- (1) the Company was not in compliance with the financial covenants in respect of working capital, Net Debt to Total Proved Reserves and Net Debt to TTM EBITDA under the Original Loan Agreement. The Proposed Alteration was agreed by the Parties as an integral part of the agreement between the Parties to restructure the financial covenants under the Original Loan Agreement. As part of this restructuring, the Parties mutually agreed to re-price the Warrants to the Current Market Price to compensate the Subscriber for the incremental risk they were exposed to by relaxing the financial covenants under the Original Loan Agreement (as altered

by subsequent amendments), and loss of future revenues it otherwise could have realized from receiving the Prepayment Fees. The Proposed Alteration was part and parcel of the Loan restructuring in 2020 and should not be assessed on a stand-alone basis. Although recent fund-raising of the Company have allowed the Company to partially repay C\$5.0 million of its debts (of which C\$15.0 million is still outstanding as at the Latest Practicable Date), in view of the spike in crude oil and natural gas prices in recent months, the Parties have agreed that it is an appropriate opportunity to proceed with the Proposed Alteration;

- (2) Shareholders are not exposed to any incremental dilution, as there is no change to the number of Common Shares to be issued to the Subscriber upon exercise of the Warrants. The Company considered that Practice Note 4 seeks to safeguard against those issuers altering their exercise price to the detriment of their shareholders and to those warrant holders who have disposed of their existing warrants. As the Warrants have already been granted to the Subscriber, the Proposed Alteration will not result in any additional dilution to the Shareholders and will not put the Subscriber in a better position than the Shareholders. Since the Subscriber is the sole warrant holder and as the Company has no other outstanding warrants, no other warrant holders will be impacted by the Proposed Alteration;
- (3) under the terms of the Original Loan Agreement, if all Warrants were exercised the Company would receive gross proceeds of HK\$25.3 million. If the Exercise Price was to be altered to HK\$0.40 per Common Share (being the closing price of the Common Shares as quoted on the Stock Exchange on March 18, 2022, being the last Trading Day immediately prior to the Company's application for the waiver), the gross proceeds would be HK\$3.20 million. While the reduction of HK\$22.10 million of gross proceeds appears material, the Subscriber would only exercise the Warrants if the Company's Common Share price exceeded the Exercise Price of HK\$3.16 per Common Share. Given the Common Shares were trading recently at a price which was more than 80% lower than the Exercise Price, and have never traded above the Exercise Price, the likelihood of the Warrants being exercised was effectively nil. If the Proposed Alteration is approved, the likelihood of the Subscriber exercising the Warrants is enhanced, as the amended Exercise Price would reflect the market value of the Common Shares at the time of the proposed adjustment, and if the price of the Common Shares subsequently increased, the amended Warrants would be "in the money" and the Subscriber would realize a profit from exercising them. The Company would then receive the gross proceeds from the Subscriber, providing additional capital with no incremental dilution to the Shareholders as the quantum of Warrants is unchanged; and

- (4) the value of the Warrants was determined using the Black-Scholes-Merton Option Pricing Model as detailed in the Company’s circular dated July 23, 2018. Based on the same methodology used to value the Warrants, as at March 18, 2022, the value of the Warrants was more than 77% lower in HK\$ than the price the Subscriber paid to acquire them, which shows that the Proposed Alteration will not result in any additional economic benefit for the Subscriber:

Parameter	Previous input	Amended input	Reference
Reference price	HK\$1.60 per Common Share	HK\$0.43 per Common Share	Reference price updated for 10 day volume weighted average price to March 18, 2022.
Exercise Price	HK\$3.16 per Common Share	HK0.40 per Common Share	Exercise Price equal to the closing price of the Common Shares as quoted on the Stock Exchange on March 18, 2022.
Risk-free rate	2.12%	0.68%	Previous input equal to risk free rate equal to yield on 5-Year Canada Bonds. Amended input equal to risk free rate on 1-Year Canada Bonds to align with the remaining term of the Warrant.
Expected life	5 years	1 year	Amended to align with the remaining term of the Warrant.
Dividend yield	Nil	Nil	
Volatility	59.9%	68.8%	Volatility of the Common Shares from the date of the IPO to May 2018 for previous input. For amended input, volatility for the year ended 18 March 2022 to align with remaining term of the Warrant.
Exchange rate	HK\$1 to C\$0.1650	HK\$1 to C\$0.1611	Amended input updated for exchange rate for the year ended March 18, 2022 to align with the remaining term of the Warrant.
Valuation (in HK\$)	HK\$4.51 million	HK\$1.02 million	HK\$3.49 million decline in value from the Original Loan Agreement
Valuation (in C\$)	C\$0.75 million	C\$0.16 million	C\$0.59 million decline in value from the Original Loan Agreement

**EFFECT OF THE EXERCISE OF THE WARRANTS ON
THE SHAREHOLDING STRUCTURE OF THE COMPANY**

As at the Latest Practicable Date, the Company has 449,886,520 Common Shares in issue. Set out below is a table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the allotment and issue of the Warrant Shares upon full exercise of the subscription rights attaching to the Warrants pursuant to the terms of the Original Warrant Certificate (assuming there is no change in the issued share capital of the Company between the Latest Practicable Date and the exercise of the subscription rights attaching to the Warrants save for the allotment and issue of the Warrant Shares):

	As at the Latest Practicable Date		Immediately upon allotment and issue of the Warrant Shares	
	<i>No. of Common Shares</i>	<i>Approximate percentage (%) (Note 5)</i>	<i>No. of Common Shares</i>	<i>Approximate percentage (%) (Note 5)</i>
Non-public Shareholders				
Aspen Investment Holdings				
Ltd. (Note 1)	181,194,306	40.28	181,194,306	39.57
Dalian Yongli (Note 2)	132,000,000	29.34	132,000,000	28.83
Jixing (Note 3)	23,600,000	5.25	23,600,000	5.15
Mr. Pingzai Wang (Note 4)	593,167	0.13	593,167	0.13
Subtotal	337,387,473	74.99	337,387,473	73.68
Other Shareholders				
Public Shareholders (excluding				
the Subscriber)	112,499,047	25.01	112,499,047	24.57
Subscriber	—	—	8,000,000	1.75
Subtotal	112,499,047	25.01	120,499,047	26.32
Total	449,886,520	100.00	457,886,520	100.00

Notes:

- Aspen Investment Holdings Ltd. holds 181,194,306 Common Shares and is owned as to approximately 80.78% by 吉林省弘原經貿集團有限公司 (Ji Lin Hong Yuan Trade Group Limited*) (“**JLHY**”) and 19.22% by 長春市麗源投資有限公司 (Changchun Liyuan Investment Co., Ltd.*) (“**Liyuan**”). JLHY is held as to 60% and 40% by Mr. Yuan Jing (“**Mr. Jing**”) and Mr. Guang Jing (being Mr. Jing’s brother), respectively. Liyuan is held as to approximately 98%, 1% and 1% by JLHY, Zhou Li Mei and Jing Yue Li, respectively.
- Dalian Yongli is directly wholly-owned by Mr. Zhang Zhong (張鐘).

3. Jixing is directly wholly-owned by CCJGSA, which is directly owned as to 66.70% and 33.30% by Mr. Liu and Ms. Zhang Lijun (Mr. Liu's spouse), respectively.
4. Mr. Pingzai Wang (“**Mr. Wang**”) is an executive Director and holds 440,000 Common Shares. Ms. Wang Li (“**Ms. Wang**”), the spouse of Mr. Wang, holds 153,167 Common Shares. Accordingly, Mr. Wang is deemed, or taken to be, interested in the Common Shares which Ms. Wang is interested in for the purposes of the SFO.
5. Certain percentage figures in this table have been subject to rounding adjustments to the nearest 2 decimal places. Accordingly, the aggregate of the percentage figures in the above table may not add up to 100%.

Immediately after the allotment and issue of the Warrant Shares upon full exercise of the subscription rights attaching to the Warrants pursuant to the terms of the Original Warrant Certificate (assuming there is no change in the issued share capital of the Company between the Latest Practicable Date and the exercise of the subscription rights attaching to the Warrants save for the allotment and issue of the Warrant Shares), approximately 26.32% of the issued share capital of the Company will be held by the public. In such case, the Company will continue to satisfy the minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules.

Shareholders and potential investors should note that the Proposed Alteration is subject to the fulfillment of the condition(s) as set out in the paragraph headed “Conditions precedents” in this circular, and that the Proposed Alteration may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Common Shares.

MATTERS TO BE CONSIDERED

1. Proposed Alteration in the terms of the Warrants

At the Meeting, the Shareholders will be asked to consider and, if deemed advisable, to pass, with or without variation, a special resolution approving and confirming the Proposed Alteration.

At the Meeting, the Shareholders will be asked to pass the following special resolution:

“BE IT HEREBY RESOLVED as a special resolution that:

- (a) the Proposed Alteration of the Exercise Price per Warrant Share from HK\$3.16 to the Current Market Price be and is hereby approved and confirmed; and
- (b) any one Director of the Company be and is hereby authorized to do such acts and things, to sign and execute all such further documents (in case of execution of documents under seal, to do so by any two Directors or any Director together with the Secretary of the Company) and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Proposed Alteration or any transactions contemplated thereunder and all other matters incidental thereto or in connection therewith, and to agree to and make such variations, amendments or waivers of any of the matters relating thereto or in connection therewith.”

UNLESS DIRECTED OTHERWISE, THE MANAGEMENT DESIGNEES NAMED IN THE ACCOMPANYING INSTRUMENT OF PROXY INTEND TO VOTE FOR THE RESOLUTION APPROVING THE PROPOSED ALTERATION.

2. Other Matters

Management of the Company is not aware of any other matters to come before the Meeting other than as referred to in the notice of the Meeting. Should any other matters properly come before the Meeting, the Common Shares represented by proxies solicited hereby will be voted on such matters in accordance with the best judgment of the person voting such proxy.

This Circular is being provided to Shareholders in English and Chinese. In case of any inconsistency, the English version shall prevail.

RECOMMENDATION

Your attention is drawn to the letter of recommendation from Dakin set out on page A-1 of this Circular, which contains, among other matters, its opinion as to whether the Proposed Alteration is fair and reasonable so far as the Shareholders are concerned and the principal factors considered by it in arriving at its opinion.

The Board, having taken into account the advice of Dakin, is of the opinion that (i) the Proposed Alteration is fair and reasonable so far as the Shareholders are concerned; and (ii) the Proposed Alteration is in the interests of the Company and the Shareholders as a whole, and recommend the Shareholders to vote in favor of the special resolution to be proposed at the Meeting to approve the Proposed Alteration.

The Directors (including the independent non-executive Directors) consider that the terms of the Proposed Alteration are fair and reasonable so far as the Independent Shareholders are concerned and the Proposed Alteration is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favor of the special resolution to be proposed at the Meeting to approve the Proposed Alteration and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Schedule to this Circular.

Additional information relating to the Company may be found under the profile of the Company on SEDAR at www.sedar.com. Additional financial information is provided in the Company's audited financial statements and related management's discussion and analysis for the financial year ended December 31, 2021, which can be found under the profile of the Company on SEDAR at www.sedar.com. Shareholders may also request information from the Company by contacting the Company's Chief Executive Officer at Suite 3600, 888-3rd Street S.W., Calgary, Alberta, Canada T2P 5C5.

Documents affecting the rights of securityholders, along with other information relating to the Company, can be found on the Company's website at www.persta.ca.

The auditor of the Company is BDO Limited. BDO Limited was appointed as the auditor of the Company on March 26, 2021.

BOARD OF DIRECTORS APPROVAL

The contents of this Circular and the sending thereof to the Shareholders of the Company have been approved by the Board.

BY ORDER OF THE BOARD

Signed: (signed) "Yongtan Liu"

Yongtan Liu

Chairman of the Board

Calgary, Alberta
Canada
July 25, 2022

Hong Kong
July 25, 2022

SCHEDULE “A”

LETTER FROM DAKIN

Set out below is the text of a letter received from Dakin, the Independent Financial Adviser to the Board and the Shareholders in respect of the Proposed Alteration for the purpose of inclusion in this Circular.



25 July 2022

To: the Board and the Shareholders of Persta Resources Inc.

Dear Sirs,

PROPOSED ALTERATION IN THE TERMS OF EXISTING WARRANTS

INTRODUCTION

We refer to our appointment as the independent financial adviser (the “**Independent Financial Adviser**”) to the Company to advise the Board and the Shareholders in respect of the Proposed Alteration pursuant to the Amended Loan Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the Circular of the Company to the Shareholders dated 25 July 2022, of which this letter forms part. Unless otherwise stated, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

Pursuant to the Amended Loan Agreement, the Parties proposed to amend the Exercise Price per Warrant Share from HK\$3.16 to the volume weighted average price (the “**VWAP**”) of the Common Shares traded on the Stock Exchange for the five Trading Days immediately preceding the date of the Meeting. According to the Letter from the Board, the VWAP of the Common Shares is determined by calculating the summation of the value of each transaction (i.e. Common Share price multiplied by number of Common Shares traded) and then dividing it by the total Common Shares traded for the particular Trading Day. On 28 June 2022, the Company and the Subscriber mutually agreed that the Exercise Price per Warrant Share should instead be amended from HK\$3.16 to the Current Market Price, which is calculated based on the average closing price (the “**ACP**”) of the Common Shares in the five Trading Days immediately preceding the date of the Meeting.

The Proposed Alteration is subject to various conditions set out under the sub-paragraph headed “Conditions precedent” under the paragraph headed “The Proposed Alteration” in the Letter from the Board. The Company will provide a New Warrant Certificate reflecting the updated Exercise Price of the Warrants to the Subscriber as soon as reasonably practicable upon the fulfilment and satisfaction of the conditions precedent of the Proposed Alteration.

As the Proposed Alteration represents the change in the terms of existing warrants of the Company, in accordance with paragraph 4(e) of the Practice Note 4 to the Listing Rules, we, Dakin Capital Limited, have been appointed as the Independent Financial Adviser to provide our opinion whether the Proposed Alteration are fair and reasonable so far as the Shareholders are concerned.

The Company will seek approval from the Shareholders in respect of the Proposed Alteration by way of a poll at the Meeting. To the best of the knowledge, information and belief of the Directors, as at the Latest Practicable Date, no Shareholder has a material interest in the Proposed Alteration and will be required to abstain from voting on the resolution(s) to approve the Proposed Alteration at the Meeting.

OUR INDEPENDENCE

We, Dakin Capital Limited, have been appointed as the Independent Financial Adviser to advise the Board and the Shareholders in this regard. During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we have issued the following letters in respect of certain transactions of the Company:

Types of transactions	Relevant letters issued	Date of our letters
Connected transaction in relation to proposed issue of new shares to connected person under specific mandate	Letter of advice as an independent financial adviser	17 September 2021
Connected transaction in relation to proposed issue of new shares to connected person under specific mandate	Letter of advice as an independent financial adviser	2 June 2022

Save for the above engagements and this appointment as the Independent Financial Adviser in respect of the Proposed Alteration, there were no other engagements between the Company and Dakin during the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser. Apart from normal professional fees for our services to the Company in connection with the above engagements and this appointment as the Independent Financial Adviser, no other arrangements exist whereby we have received/will receive any fees and/or benefits from the Company. During the past two years immediately preceding and up to the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company, or its substantial Shareholders, Directors, chief executive, or any of their respective associates. We are independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Board and the Shareholders in respects of the fairness and reasonableness of the terms of the Proposed Alteration.

BASIS OF OUR OPINION

In formulating our opinion to the Board and the Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular are accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company or associates, nor have we considered the taxation implication on the Company or the Shareholders as a result of the Proposed Alteration. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

This letter is issued for the information for the Board and the Shareholders solely in connection with their consideration of the fairness and reasonableness of the terms of the Proposed Alteration and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion to the Board and the Shareholders in respect of the fairness and reasonableness of the terms of the Proposed Alteration, we have considered the following principal factors and reasons:

1. Background information of the Parties

1.1 *The Company*

As stated in the Letter from the Board, the Company is principally engaged in natural gas and crude oil exploration and production, with a focus on natural gas resources. The Company focuses on long-term growth through acquisition, exploration, development and production in the Western Canadian Sedimentary Basin of its significant holdings of natural gas leases in the Western Canadian Sedimentary Basin region.

1.2 *Crown Capital Partner Funding, LP*

As stated in the Letter from the Board, it is a limited partnership governed by the laws of Alberta, Canada and is principally engaged in financing transactions originated and managed by Crown, a specialty finance company focused on providing growth capital to successful Canadian and U.S. companies. Other than being a party to the Original Loan Agreement and a holder of the Original Warrant Certificate, to the best knowledge, information and belief of the Directors and after making all reasonable enquiries, the Subscriber and its ultimate beneficial owner are third parties independent of and not connected with the Company and its connected persons. Saved as disclosed herein, the Company, its close associates and the connected persons of the Company (so far as is known to the directors of the Company after making reasonable enquiries) had no dealings in the Warrants and the underlying securities to which the Warrants relate, during the period commencing three months prior to the announcement of the Warrant proposal (i.e. 15 May 2018) and ending on the date of this circular.

2. Background and reasons of the Proposed Alteration

2.1 *The Original Loan Agreement and the Original Warrant Certificate*

On 15 May 2018, the Company entered into the Original Loan Agreement with the Subscriber, pursuant to which: (i) the Subscriber conditionally agreed to grant the Loan to the Company in the principal amount of C\$25 million for a term of five years; and (ii) the Company conditionally agreed to issue 8,000,000 Warrants to the Subscriber. Pursuant to the Original Loan Agreement, each Warrant carries the rights to subscribe for one Warrant Share at the Original Exercise Price of HK\$3.16 (subject to adjustments). The subscription right(s) of the Warrants are exercisable from the initial advance of the Loan to five years following the date of issuance of the Original Warrant Certificate. The maturity date of the Loan is 15 May 2023. The Subscriber can exercise the subscription right(s) attaching to the Warrant(s) until 15 May

2023. Upon expiry of the Exercise Period, any Warrants which have not been exercised will lapse and cease to be valid for any purpose. Details of the Warrant Shares are set out in the paragraph headed “Background to the Proposed Alteration” in the Letter from the Board.

On 14 August 2018, the Shareholders, among other things, approved, ratified and confirmed the Original Loan Agreement and the transactions contemplated under the Original Loan Agreement, including the issue of the Warrants and the Original Warrant Certificate, and granted the Board a specific mandate to exercise the powers of the Company for the allotment and issue of the Warrant Shares upon exercise of the subscription rights attaching to the Warrants pursuant to the terms of the Original Loan Agreement and the Original Warrant Certificate.

We have reviewed the Original Warrant Certificate and noted that the Original Exercise Price was equivalent to the price of the Common Shares issued pursuant to the Company’s initial public offering on 10 March 2017. We are advised by the Directors that during the arm-length negotiation with the Subscriber, the Directors and the Subscriber mutually agreed that the Warrants were originally issued to the Subscriber in 2018 with the intention of providing potential future benefit for the Subscriber if the price of the Common Shares exceeds the Original Exercise Price.

As stated in the Letter from the Board, after the signing the Original Loan Agreement, the Western Canadian gas market experienced a significant downturn as aggregate natural gas production exceeded both domestic demand and storage capabilities. As advised by the management of the Company, the Company was not in compliance with its Net Debt to Total Proved Reserves Ratio covenant under the Original Loan Agreement as at 31 December 2019 and 31 March 2020, and received a waiver from the Subscriber in respect of these breaches. While the Subscriber had provided a waiver in respect of prior violations, repeated future breaches could result in the Subscriber not providing a waiver. In the event of failure of the Company to perform, keep or observe any of the financial covenants, which constitute an event of default under the Original Loan Agreement, and such breach was not waived by the Subscriber, the Subscriber can take ownership of all of the Company’s properties and assets, since a lien on all of the present and after-acquired property of the Company was delivered to the Subscriber pursuant to the Original Loan Agreement, and all accrued interest and fees. As the economic environment in May 2020 was further impacted by the outbreak of the novel coronavirus (COVID-19), the Company then anticipated that it would be in breach of its financial covenants under the Original Loan Agreement throughout the remainder of 2020. In response of the anticipated repeated financial covenant violations, the Parties agreed to restructure the Original Loan Agreement.

Meanwhile, the Directors noted that (i) subsequent to the issuance of the Warrants, the Common Share price has declined due to the deteriorating economic environment; and (ii) the closing price of the Common Shares traded at HK\$0.53 per Common Share on the Trading Day immediately prior to the announcement of the Company dated 15 May 2018, representing a discount of approximately 83.2% to the Original Exercise Price of HK\$3.16 (the “**Discount of the Warrants**”). The Directors and the Subscriber had discussed and concurred with the

views that (i) such Discount of the Warrants provide the Subscriber with limited potential value in respect of the Warrants; and (ii) the proposed re-pricing of the Warrants to the Current Market Price offers a better chance for future value to be received by the Subscriber and aligns the Subscriber’s interests with the Shareholders.

2.2 *The alteration of the Original Loan Agreement and the Original Warrant Certificate*

As stated in the Letter from the Board, on 28 April 2020, the Parties entered into the Amended Loan Agreement, pursuant to which the Parties agreed to, among other things, amend certain terms of the Original Loan Agreement and, subject to the fulfillment of certain conditions precedent, alter the terms of the Warrants (the “**2020 Restructuring**”). Please refer to the sub-paragraph headed “Amendment to the Original Loan Agreement on 28 April 2020” under the paragraph headed “Alteration of the Original Loan Agreement” in the Letter from the Board for detailed information for the other principal amendments of the Original Loan Agreement under 2020 Restructuring.

As stated in the Letter from the Board, on 30 June 2021, the Parties agreed to restructure the Original Loan Agreement, whereby the financial covenants in respect of Net Debt to Total Proved Reserves and Net Debt to TTM EBITDA were waived for the remainder of 2021 and would be reinstated from 31 March 2022 onwards (the “**2021 Restructuring**”). Please refer to the sub-paragraph headed “Amendment to the Original Loan Agreement on 30 June 2021” under the paragraph headed “Alteration of the Original Loan Agreement” in the Letter from the Board for detailed information for the other principal amendments of the Original Loan Agreement under 2021 Restructuring.

As stated in the Letter from the Board, on 11 March 2022, the Parties agreed to restructure the Original Loan Agreement, whereby the financial covenants in respect of Net Debt to TTM EBITDA was waived for the remainder of the term of the Loan (the “**2022 Restructuring**”). Please refer to the sub-paragraph headed “Amendment to the Original Loan Agreement on 11 March 2022” under the paragraph headed “Alteration of the Original Loan Agreement” in the Letter from the Board for detailed information for the other principal amendments of the Original Loan Agreement under 2022 Restructuring.

Pursuant to the Letter from the Board, as at the Latest Practicable Date, the following financial covenants under the Original Loan Agreement (as altered by subsequent amendments) still remain:

- (1) Net Debt to Total Proved Reserves ratio — the Company shall maintain the ratio of its Net Debt to Total Proved Reserves below 0.75:1.0; and
- (2) licensee liability rating (“**LLR**”)/liability management rating (“**LMR**”) — the Company shall maintain a LLR/LMR of not less than 2.0:1.0.

Pursuant to the Letter from the Board, as at the Latest Practicable Date, the Company has fully satisfied the principal payments required to be made by the Company to the Subscriber of C\$2.5 million on or before 30 June 2022 and of C\$2.5 million on or before 31 December

2022. As confirmed by the management of the Company, as at the Latest Practicable Date, (i) the Company has not received any waivers from the Subscriber in relation to further breaches of any financial covenants of the Loan; and (ii) the Company was not in breach of any financial covenants and/or in default of the Loan. As stated in the Letter from the Board, the various amendments to the Original Loan Agreement and the Stock Exchange's and the Shareholders' approval of the Proposed Alteration are not inter-conditional upon each other. However, as further disclosed under the paragraph headed "Reasons for the Proposed Alteration" in the Letter from the Board, the Proposed Alteration was the Company's effort to negotiate the repayment of the Loan with the Subscriber.

Pursuant to the Amended Loan Agreement, the Parties proposed to amend the Exercise Price per Warrant Share from HK\$3.16 to the VWAP of the Common Shares traded on the Stock Exchange for the five Trading Days immediately preceding the date of the Meeting. According to the Letter from the Board, the VWAP of the Common Shares is determined by calculating the summation of the value of each transaction (i.e. Common Share price multiplied by number of Common Shares traded) and then dividing it by the total Common Shares traded for the particular Trading Day. On 28 June 2022, the Company and the Subscriber mutually agreed that the Exercise Price per Warrant Share should instead be amended from HK\$3.16 to the Current Market Price, which is calculated based on the ACP of the Common Shares in the five Trading Days immediately preceding the date of the Meeting.

As stated in the Letter from the Board, in May 2020, the Company was unable to comply with paragraph 4(a) of Practice Note 4 to the Listing Rules since the Warrants did not have a positive intrinsic value. The Company applied to the Stock Exchange for, and was granted on 20 May 2020, a waiver from strict compliance with paragraph 4(a) of Practice Note 4 to the Listing Rules. Pursuant to the Letter from the Board, the Company did not rely on the waiver granted in 20 May 2020 to proceed with the Proposed Alteration for the following reasons:

- (i) in the second half of 2020, the implementation of lockdown measures in many countries and territories to slow the spread of COVID-19, and a lower level of activity caused by the COVID-19-induced macroeconomic crisis, led to sharp decrease in natural gas and crude oil prices in North America. Faced with these unprecedented times of pandemic shocks and lockdowns, Canada's natural gas and crude oil markets experienced historically low spot prices and high volatility. The Company's management was actively monitoring the impact of the COVID-19 pandemic on the Company's business and was in constant communication with the Subscriber to find an appropriate opportunity to proceed with the Proposed Alteration. The Subscriber, in view of the unstable crude oil and natural gas prices and continuing market volatility in 2020 and 2021, agreed with the Company to temporarily set aside the Proposed Alteration;
- (ii) following KPMG LLP's resignation as the auditors of the Company in August 2020, the Company faced significant difficulties in finding and engaging a suitable Canadian qualified auditor that was capable of issuing, or willing to issue, an audit opinion in Hong Kong primarily due to the new requirement of the recognition of overseas auditors under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong

Kong), whereby all non-Hong Kong auditors intending to carry out a public interest entity audit engagement of a company listed on the Stock Exchange are required to be recognized by the Financial Reporting Council in Hong Kong. This process was further delayed due to interruptions and lockdowns caused by the outbreak of COVID-19 in Calgary, Canada between December 2020 to February 2021, which delayed the completion of the Company's financial statements for the year ended 31 December 2020 which in turn delayed the publication of the audited 2020 annual results. As a result, the Company's management had to devote significant amount of time and efforts to ensure compliance with the Listing Rules and that the delay in publishing the annual results would not lead to suspension of trading of the Common Shares. After several months of efforts to engage a suitable auditor to provide an audit opinion in both Canada and Hong Kong, the Company engaged BDO Limited Hong Kong on 26 March 2021; and

- (iii) the successful completion of the placing of 60 million new Common Shares to Dalian Yongli on 20 December 2020 provided the Company with gross proceeds of HK\$18 million. This relieved the financial pressure of the Company and the immediate need to proceed with the Proposed Alteration.

As advised by the management of the Company, given the relatively small scale of the Company's operations, the Company is particularly susceptible to changes in energy prices. The Subscriber was of the view that positive changes in crude oil and natural gas prices would lead to better financial results, higher earnings and a steady increase in the valuation of the Company in the long-term. The Directors are of the view that given the recent increase in oil price and natural gas and against this backdrop, the Parties believed that this was a suitable time to proceed with the Proposed Alteration.

As stated in the Letter from the Board, on the basis of the following, the Company has applied for, and the Stock Exchange has granted on 2 June 2022, a waiver from strict compliance with paragraph 4(a) of Practice Note 4 to the Listing Rules:

- (i) the Company was not in compliance with the financial covenants in respect of working capital, Net Debt to Total Proved Reserves and Net Debt to TTM EBITDA under the Original Loan Agreement. The Proposed Alteration was agreed by the Parties as an integral part of the agreement between the Parties to restructure the financial covenants under the Original Loan Agreement. As part of this restructuring, the Parties mutually agreed to re-price the Warrants to the Current Market Price to compensate the Subscriber for the incremental risk they were exposed to by relaxing the financial covenants under the Original Loan Agreement (as altered by subsequent amendments), and loss of future revenues it otherwise could have realized from receiving the Prepayment Fees. The Proposed Alteration was part and parcel of the Loan restructuring in 2020 and should not be assessed on a stand-alone basis. Although recent fund-raising of the Company have allowed the Company to partially repay C\$5.0 million of its debts (of which C\$15.0 million is outstanding as at the Latest Practicable Date), in view of the spike in crude oil and natural gas prices in recent months, the Parties have agreed that it is an appropriate opportunity to proceed with the Proposed Alteration;

- (ii) Shareholders are not exposed to any incremental dilution, as there is no change to the number of Common Shares to be issued to the Subscriber upon exercise of the Warrants. The Company considered that Practice Note 4 to the Listing Rules seeks to safeguard against those issuers altering their exercise price to the detriment of their shareholders and to those warrant holders who have disposed of their existing warrants. As the Warrants have already been granted to the Subscriber, the Proposed Alteration will not result in any additional dilution to the Shareholders and will not put the Subscriber in a better position than the Shareholders. Since the Subscriber is the sole warrant holder and as the Company has no other outstanding warrants, no other warrant holders will be impacted by the Proposed Alteration; and
- (iii) under the terms of the Original Loan Agreement, if all Warrants were exercised the Company would receive gross proceeds of HK\$25.3 million. If the Exercise Price was to be altered to HK\$0.40 per Common Share (being the closing price of the Common Shares as quoted on the Stock Exchange on 18 March 2022, being the last Trading Day immediately prior to the Company’s application for the waiver), the gross proceeds would be HK\$3.20 million. While the reduction of HK\$22.10 million of gross proceeds appears material, the Subscriber would only exercise the Warrants if the Company’s Common Share price exceeded the Exercise Price of HK\$3.16 per Common Share. Given the Common Shares were trading recently at a price which was more than 80% lower than the Exercise Price, and have never traded above the Exercise Price, the likelihood of the Warrants being exercised was effectively nil. If the Proposed Alteration is approved, the likelihood of the Subscriber exercising the Warrants is enhanced, as the amended Exercise Price would reflect the market value of the Common Shares at the time of the proposed adjustment, and if the price of the Common Shares subsequently increased, the amended Warrants would be “in the money” and the Subscriber would realize a profit from exercising them. The Company would then receive the gross proceeds from the Subscriber, providing additional capital with no incremental dilution to the Shareholders as the quantum of Warrants is unchanged.

2.3 Our view on the Proposed Alteration

We have reviewed the documents obtained from the Company, discussed with the management of the Company, and are advised on the principal terms of amendments of the Original Loan Agreement as summarised below:

Documents obtained			Principal terms of amendments
No.	from the Company		
1.	The Amended Loan Agreement	Loan	The financial covenants in respect of working capital, Net Debt to Total Proved Reserves and Net Debt to TTM EBITDA were removed until 31 March 2021.

- | | | |
|----|--|--|
| 2. | Amendment to the Original Loan Agreement in 2021 Restructuring | The financial covenants in respect of Net Debt to Total Proved Reserves and Net Debt to TTM EBITDA were waived for the remainder of 2021 and would be reinstated from 31 March 2022 onwards. |
|----|--|--|

The financial covenants in respect of working capital were also eliminated for the remainder of the terms of the Loan.

- | | | |
|----|--|--|
| 3. | Amendment to the Original Loan Agreement in 2022 Restructuring | The financial covenants in respect of Net Debt to TTM EBITDA was waived for the remainder of the term of the Loan. |
|----|--|--|

As shown in the above table, we noted that the Subscriber had provided (i) one time of waiver for the financial covenants in respect of working capital; (ii) two times of waiver for the financial covenants in respect of Net Debt to Total Proved Reserves; and (iii) three times of waiver for the financial covenants in respect of Net Debt to TTM EBITDA. Also, according to the Amendment to the Original Loan Agreement in 2021 Restructuring, the financial covenants in respect of working capital was also eliminated for the remainder of the terms of the Loan. Furthermore, according to the amendment to the Original Loan Agreement in 2022 Restructuring, the financial covenants in respect of Net Debt to TTM EBITDA was waived for the remainder of the term of the Loan. As advised by the management of the Company, such several times of waivers granted by the Subscriber on the financial covenants of the Original Loan Agreement (as altered by subsequent amendments) as mentioned above (i) demonstrate that the Subscriber had intention to negotiate with the Company on how to improve the Company's business operation and financial position in order to repay the outstanding indebtedness; and (ii) allow the Company to avoid the risk of breaching the financial covenants with the Subscriber and enable the Company to navigate safely through COVID-19 pandemic in 2020 and 2021 in hope of more stable times ahead. Also, the management of the Company advised us that in the event of failure of the Company to perform, keep or observe any of the financial covenants, which constitute an event of default under the Original Loan Agreement (as altered by subsequent amendments), and such breach was not waived by the Subscriber, the Subscriber can take ownership of all of the Company's properties and assets, since a lien on all of the present and after-acquired property of the Company was delivered to the Subscriber pursuant to the Original Loan Agreement, and all accrued interest and fees. Furthermore, as advised by the management of the Company, the Proposed Alteration is also part and parcel of the Amended Loan Agreement for the Subscriber agreeing to provide several times of waiver on the financial covenants of the Original Loan Agreement (as altered by subsequent amendments).

As stated in the Letter from the Board, (i) as the Warrants have already been granted to the Subscriber and the Subscriber is, and has been, the sole warrant holder, the Proposed Alteration does not result in any additional dilution to the Shareholders and will not put the Subscriber in a better position than the other Shareholders; and (ii) the only impact from the

Proposed Alteration is the amount of proceeds the Company will receive on exercise of the subscription right(s) attaching to the Warrant(s). Under the terms of the Original Loan Agreement, if all 8,000,000 Warrants were exercised, the Company would have received gross proceeds of HK\$25.2 million. For illustration purpose only, if the Proposed Alteration is approved and all 8,000,000 Warrants are exercised, assuming the Amended Exercise Price is HK\$0.52 per Warrant (being the ACP of the Common Shares in the five Trading Days immediately preceding the Latest Practicable Date), the gross proceeds would be HK\$4.16 million, a difference of HK\$21.04 million. The Directors are of the view that while this reduction is material, the loss of potential value from the exercise of the Warrants is comparatively insignificant to the financial implications of a potential default of the Loan. As stated in the Letter from the Board, the Company intends to apply the net proceeds from the full exercise of subscription rights attaching to the Warrants, after deducting the expenses payable by the Company in connection with the Proposed Alteration for general working capital of the Company, which is in line with the proposal disclosed in the announcement of the Company dated 15 May 2018 and the circular of the Company dated 23 July 2018. However, the Directors note that given the market performance of the Common Shares since the issue of the Warrants, it is unlikely that any Warrants will be exercised if the Proposed Alteration does not proceed, in which event the Company would not receive any gross proceeds from the Warrants.

Taking into account (i) the Proposed Alteration was part and parcel of the Loan restructuring in 2020 and should not be assessed on a stand-alone basis; (ii) the Proposed Alteration, together with the Loan restructuring in 2020 allowed the Company to avoid the risk of breaching the financial covenants with the Subscriber, resulting in potential default of the Loan which outweigh the material reduction in gross proceeds from the exercise of the Warrants; (iii) the Proposed Alteration does not have result in additional dilution to the Shareholders; (iv) the Company would receive the gross proceeds from the Subscriber and provide additional capital to the Company with no incremental dilution to the Shareholders if the Subscriber exercises the Warrants; (v) the Company's financial performance had improved for the three years ended 31 December 2021 and the Company's financial position had improved as at 31 March 2022 under several times of waivers granted by the Subscriber on the financial covenants of the Original Loan Agreement (as altered by subsequent amendments) and enable the Company to navigate safely through COVID-19 pandemic in 2020 and 2021 in hope of more stable times ahead as discussed in the paragraph headed "3. Financial information of the Company" below in this letter; (vi) the principal terms of the Proposed Alteration are fair and reasonable as discussed in the paragraph headed "4. Principal terms of the Proposed Alteration" below in this letter; and (vii) the Proposed Alteration is subject to the approval from the Shareholders, we are of the view and concur with the view of the Directors that the Proposed Alteration are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Financial information of the Company

The table below is the general financial information of the Company for the financial years ended 31 December 2019, 2020 and 2021 which are extracted from the Company’s annual reports for the year ended 31 December 2020 (the “**Annual Report 2020**”) and the Company’s annual reports for the year ended 31 December 2021 (the “**Annual Report 2021**”).

Summary of the financial results and position of the Company

	For the year ended 31 December		
	2019	2020	2021
	(audited)	(audited)	(audited)
	<i>C\$’000</i>	<i>C\$’000</i>	<i>C\$’000</i>
Financial performance			
Revenue			
Commodity sales from production	13,627	13,269	21,480
Trading revenue	630	8	(11)
Other income	78	213	48
Royalty expense	(2,447)	(751)	(2,663)
Total net revenue	11,888	12,739	18,854
(Loss)/Income from operations	(46,203)	(16,585)	246
Finance expenses	(4,263)	(5,266)	(5,055)
Loss before taxes/Loss and comprehensive loss	(50,466)	(21,851)	(4,809)
	As at 31 December		
	2019	2020	2021
	(audited)	(audited)	(audited)
	<i>C\$’000</i>	<i>C\$’000</i>	<i>C\$’000</i>
Financial position			
Non-current assets	55,604	41,127	49,594
Current assets	3,459	3,539	3,388
Total assets	59,063	44,666	52,982
Non-current liabilities	(5,290)	(6,028)	(21,840)
Current liabilities	(30,105)	(33,477)	(26,128)
Total liabilities	(35,395)	(39,505)	(47,968)
Net current liabilities	(26,646)	(29,938)	(22,740)
Net assets	23,668	5,161	5,014

3.1 Year ended 31 December 2020 compared with year ended 31 December 2019

As stated in the Annual Report 2020, the Company's revenue consists of commodity sales from production of natural gas, crude oil, natural gas liquids ("NGLs"), condensate, natural gas trading, over-riding royalty payments and income generated from source outside normal operations such as rental income and subsidies. The Company's revenue of commodity sales from production decreased from approximately C\$13.6 million for the year ended 31 December 2019 ("FY2019") to approximately C\$13.3 million for the year ended 31 December 2020 ("FY2020"), representing a decrease of approximately 2.6%. As stated in the Annual Report 2020, such decrease of revenue of commodity sales from production was mainly due to the combined effect of (i) the increase in production and price of natural gas; which was offset by (ii) the decrease in price of crude oil as global demand collapsed in response to the COVID-19 epidemic; and (iii) the decrease in price of NGLs and condensate which are correlated with the decrease in price of crude oil. The Company's revenue of natural gas trading decreased from approximately C\$0.6 million for FY2019 to approximately C\$8,000 for FY2020.

The Company's royalty expense decreased from approximately C\$2.4 million for FY2019 to approximately C\$0.8 million for FY2020, representing a decrease of approximately 69.3%. As stated in the Annual Report 2020, the Company received a gas cost allowance (the "GCA") of C\$1 million in the second quarter of 2020, following a government re-assessment of the royalties paid by the Company during 2019, whereas the Company did not receive any GCA during 2019. As a result of these credits, the Company's effective royalty rate for FY2020 was 6%, compared to 18% for FY2019.

The Company's other income increased from approximately C\$78,000 for FY2019 to approximately C\$0.2 million for FY2020, representing an increase of approximately 1.7 times. According to the Annual Report 2020, the increase in other income was mainly attributable to payroll subsidies received from the government of Canada for COVID-19 relief. Therefore, the Company's net revenue for FY2020 was approximately C\$12.5 million, representing an increase of approximately 6.1% as compared to that of approximately C\$11.8 million for FY2019.

The Company's loss from operations reduced from approximately C\$46.2 million for FY2019 to approximately C\$16.6 million to FY2020. According to the management of the Company, such improvement was mainly due to (i) the decrease in impairment losses of exploration and evaluation assets of approximately C\$21.7 million and the decrease in impairment losses of property, plant and equipment of approximately C\$9.8 million; and partially offset by (ii) the increase in operating costs of approximately C\$3.3 million.

The Company's finance expenses increased from approximately C\$4.3 million for FY2019 to approximately C\$5.3 million for FY2020. As stated in the Annual Report 2020, such increase in finance expenses was mainly attributable to the termination fee of approximately C\$0.3 million and additional interest incurred from the subordinated debt.

The Company's loss for the year narrowed down from approximately C\$50.5 million for FY2019 to approximately C\$21.9 million for FY2020. As stated in the Annual Report 2020, such improvement was primarily attributable to higher impairment losses and write-offs incurred of approximately C\$41.1 million for FY2019 (FY2020: approximately C\$12.7 million).

3.2 Year ended 31 December 2021 compared with year ended 31 December 2020

As stated in the Annual Report 2021, the Company's revenue consists of commodity sales from production of natural gas, crude oil, NGLs, condensate, natural gas trading, over-riding royalty payments and income generated from source outside normal operations such as rental income and subsidies. The Company's revenue of commodity sales from production increased from approximately C\$13.3 million for FY2020 to approximately C\$21.5 million for the year ended 31 December 2021 ("**FY2021**"), representing an increase of approximately 61.9%. As stated in the Annual Report 2021, such increase of revenue of commodity sales from production was mainly due to the combined effect of (i) the increase in price of natural gas, crude oil, NGLs and condensate; which was offset by (ii) the decrease in daily production of natural gas and NGLs. The net revenue of natural gas trading remained stable for FY2020 and FY2021, reflecting the small quantities of gas which was traded in both years.

The Company's royalty expense increased from approximately C\$0.8 million for FY2020 to approximately C\$2.7 million for FY2021, representing an increase of approximately 2.5 times. As stated in the Annual Report 2021, effective royalty rates can differ from the base rates if the production qualifies for any cost allowance which offset the base amount payable. In June 2021, the Company received a GCA credit of C\$0.6 million following a government re-assessment of the 2020 royalties paid by the Company from the government. In June 2020, the Company's GCA credit was C\$1 million, which resulted in a recovery of royalties in both years. As a result of these credits, the Company's effective royalty rate for FY2021 was 12%, compared to 6% for FY2020.

The Company's other income decreased from approximately C\$0.2 million for FY2020 to approximately C\$48,000 for FY2021, representing a decrease of approximately 77.5%. According to the Annual Report 2021, the decrease in other income was mainly attributable to payroll subsidies received from the government of Canada for COVID-19 relief in 2020. Therefore, the Company's net revenue for FY2021 was approximately C\$18.9 million, representing an increase of approximately 48.0% as compared to that of approximately C\$12.7 million for FY2020.

The Company recorded an income from operations of approximately C\$0.2 million for FY2021, as compared with a loss from operations approximately C\$16.6 million for FY2020. According to the management of the Company, such improvement was mainly due to (i) the impairment recovery of property, plant and equipment of approximately C\$4.3 million for FY2021 (impairment loss of property, plant and equipment of approximately C\$5.4 million for FY2020); and (ii) the decrease in impairment losses and write-offs of exploration and

evaluation assets from approximately C\$4.3 million for FY2020 to approximately C\$0.3 million for FY2021; and partially offset by the increase in operating costs from approximately C\$10.9 million for FY2020 to approximately C\$14.4 million for FY2021.

The Company's finance expenses decreased from approximately C\$5.3 million for FY2020 to approximately C\$5.1 million for FY2021. Pursuant to the Annual Report 2021, such decrease in finance expenses was mainly attributable to the decrease in commitment charges and accretion expenses.

The Company's loss for the year narrowed down from approximately C\$21.9 million for FY2020 to approximately C\$4.8 million for FY2021. As stated in the Annual Report 2021, such improvement was primarily attributable to higher impairment losses and write-offs incurred of approximately C\$9.7 million for FY2020 (impairment recovery and write-offs of approximately C\$4.3 million for FY2021).

3.3 *Financial position of the Company*

As at 31 December 2019, the Company had total assets of approximately C\$59.1 million (including non-current assets of approximately C\$55.6 million and current assets of approximately C\$3.5 million) and total liabilities of approximately C\$35.4 million (including non-current liabilities of approximately C\$5.3 million and current liabilities of approximately C\$30.1 million).

As at 31 December 2020, the Company had total assets of approximately C\$44.6 million (including non-current assets of approximately C\$41.1 million and current assets of approximately C\$3.5 million) and total liabilities of approximately C\$39.5 million (including non-current liabilities of approximately C\$6.0 million and current liabilities of approximately C\$33.5 million).

As at 31 December 2021, the Company had total assets of approximately C\$53.0 million (including non-current assets of approximately C\$49.6 million and current assets of approximately C\$3.4 million) and total liabilities of approximately C\$48.0 million (including non-current liabilities of approximately C\$21.9 million and current liabilities of approximately C\$26.1 million).

As at 31 December 2020, the net assets of the Company was approximately C\$5.1 million, representing a decrease of approximately 78.2% as compared to that of approximately C\$23.7 million as at 31 December 2019. According to the management of the Company, such decrease in net assets of the Company was mainly due to the losing-making position of the Company for FY2020. The net assets of the Company remained stable as at 31 December 2020 and 2021.

According to the Annual Report 2020 and the Annual Report 2021, we noted that there was an increasing trend in the Company's gearing ratio, which is defined as net debt as a percentage of total capital ("**Gearing Ratio**"), of 56%, 87% and 90% as at 31 December 2019, 31 December 2020 and 31 December 2021 respectively. Pursuant to the Annual Report 2020 and

the Annual Report 2021, we also noted that the Company's interest expenses in relation to the subordinated debt increased from approximately C\$3.0 million for FY2019 to approximately C\$3.7 million for FY2020 and further increased to approximately C\$3.9 million for FY2021. Furthermore, as advised by the management of the Company, (i) the Company's Gearing Ratio reduced from 99% as at 30 June 2021 to 90% as at 31 December 2021 after the completion of the issue of new Common Shares under general mandate on 3 December 2021 and the completion of the first tranche of subscription of 20,000,000 new Common Shares by Dalian Yongli on 13 December 2021; and (ii) the Company's outstanding loan balance of subordinated debt would be C\$17.5 million after the completion of the subscription of 17,000,000 new Common Shares by Dalian Yongli pursuant to the subscription agreement dated 5 May 2022 entered into between the Company and Dalian Yongli (Please refer to the Company's circular dated 2 June 2022 for detailed information) and principal payment of C\$2.5 million on or before 30 June 2022 pursuant to the 2022 Restructuring. In light of this, we have further reviewed the Company's announcement of unaudited results for the three months ended 31 March 2022 (the "**First Quarter Results 2022**") and noted that (i) the Company's Gearing Ratio decreased from 90% as at 31 December 2021 to 84% as at 31 March 2022; (ii) the Company's net current liabilities narrowed down from approximately C\$22.7 million as at 31 December 2021 to approximately C\$17.9 million as at 31 March 2022; and (iii) the Company's net assets increased from approximately C\$5.0 million as at 31 December 2021 to approximately C\$8.0 million as at 31 March 2022.

As illustrated above and advised by the management of the Company, the Company's financial performance had improved for the three years ended 31 December 2021 and the Company's financial position had improved as at 31 March 2022.

4. Principal terms of the Proposed Alteration

Pursuant to the Amended Loan Agreement, the Parties proposed to amend the Exercise Price per Warrant Share from HK\$3.16 to the VWAP of the Common Shares traded on the Stock Exchange for the five Trading Days immediately preceding the date of the Meeting. According to the Letter from the Board, the VWAP of the Common Shares is determined by calculating the summation of the value of each transaction (i.e. Common Share price multiplied by number of Common Shares traded) and then dividing it by the total Common Shares traded for the particular Trading Day. On 28 June 2022, the Company and the Subscriber mutually agreed that the Exercise Price per Warrant Share should instead be amended from HK\$3.16 to the Current Market Price, which is calculated based on the ACP of the Common Shares in the five Trading Days immediately preceding the date of the Meeting (the "**Amended Exercise Price**"). As confirmed by the Directors, except for the amendment of the Exercise Price per Warrant Share from HK\$3.16 to the Current Market Price, the other terms and conditions of the Warrants remain unchanged.

For illustration purpose only, if the Proposed Alteration is approved and all 8,000,000 Warrants are exercised, assuming the Amended Exercise Price is HK\$0.52 per Warrant (being the ACP of the Common Shares in the five Trading Days immediately preceding the Latest Practicable Date), the gross proceeds would be HK\$4.16 million. According to the management of the Company, the Company intends to apply the net proceeds from the full exercise of subscription rights attaching to the Warrants, after deducting the expenses payable by the Company in connection with the Proposed Alteration for general working capital of the Company, which is in line with the proposal disclosed in the announcement of the Company dated 15 May 2018 and the circular of the Company dated 23 July 2018. The Warrant Shares represent (i) approximately 1.78% of the issued and outstanding Common Shares as at the Latest Practicable Date; and (ii) approximately 1.75% of the total number of issued and outstanding Common Shares as enlarged by the allotment and issue of the Warrant Shares and assuming there will be no other changes in the issued share capital of the Company between the Latest Practicable Date and the exercise of the subscription rights attaching to the Warrants save for the allotment and issue of the Warrant Shares.

The Proposed Alteration is subject to various conditions set out under the sub-paragraph headed “Conditions precedent” under the paragraph headed “The Proposed Alteration” in the Letter from the Board. The Company will provide a New Warrant Certificate reflecting the updated Exercise Price of the Warrants to the Subscriber as soon as reasonably practicable upon the fulfilment and satisfaction of the conditions precedent of the Proposed Alteration.

We have reviewed the following terms of the Proposed Alteration. In order to assess the fairness and reasonableness of the Amended Exercise Price, we have compared with reference to (i) the recent price performance of the Common Shares; (ii) trading volume of the Common Shares; and (iii) the market comparables analysis, as follows:

4.1 *The Amended Exercise Price*

On 28 June 2022, the Company and the Subscriber mutually agreed that the Exercise Price per Warrant Share should instead be amended from HK\$3.16 to the Amended Exercise Price, which is calculated based on the ACP of the Common Shares in the five Trading Days immediately preceding the date of the Meeting. In light of this, the Amended Exercise Price per Warrant Share is unable to fix it as at the Latest Practicable Date. The Directors are of the view that based on the historical performance of Common Share price and the trading volume of Common Shares for the period from 21 January 2022, being the preceding six-month from the Latest Practicable Date (the “**Review Period**”), the Common Share price and the trading volume of Common Shares would not be highly volatile between the Latest Practicable Date and the date of the Meeting.

For illustration purpose only, based on the ACP of the Common Shares in the five Trading Days immediately preceding the Latest Practicable Date, the Amended Exercise Price per Warrant Share is HK\$0.52, which represents:

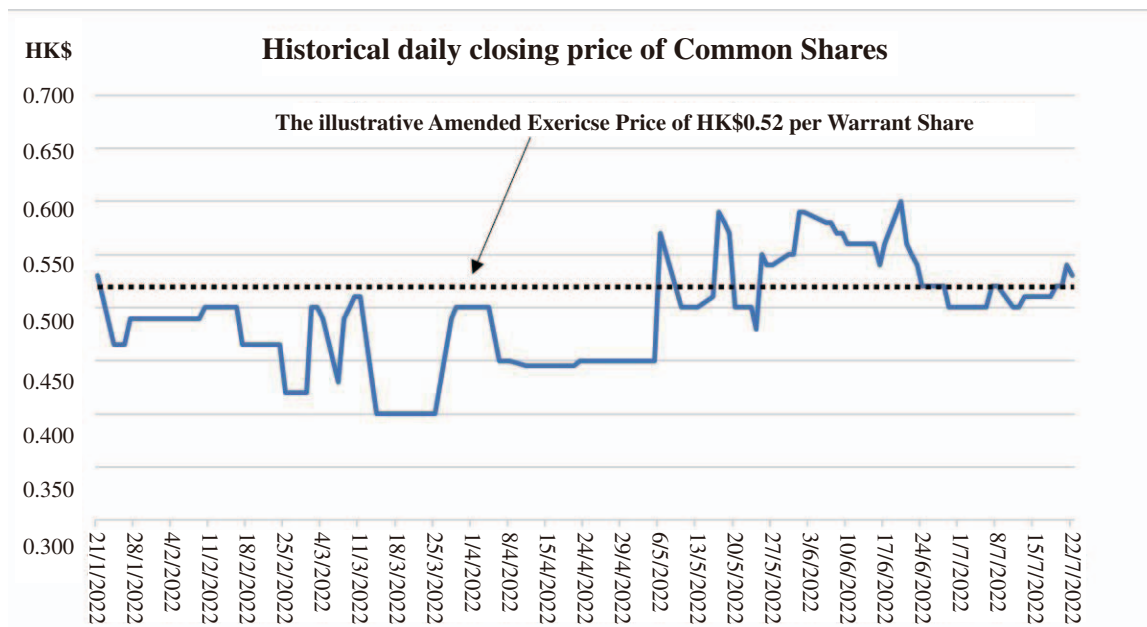
- (i) a discount of approximately 3.70% to the closing price of HK\$0.54 per Common Share as quoted on the Stock Exchange on 21 July 2022, being the last full Trading Day prior to the Latest Practicable Date (the “**Last Trading Day**”);
- (ii) the average closing price of HK\$0.52 per Common Share as for the last 5 consecutive Trading Days up to and including the Last Trading Day;
- (iii) a premium of approximately 1.17% to the average closing price of HK\$0.514 per Common Share as for the last 10 consecutive Trading Days up to and including the Last Trading Day;
- (iv) a discount of approximately 1.70% to the average closing price of approximately HK\$0.529 per Common Share as for the last 30 consecutive Trading Days up to and including the Last Trading Day;
- (v) a discount of approximately 3.17% to the average closing price of approximately HK\$0.537 per Common Share as for the last 45 consecutive Trading Days up to and including the Last Trading Day; and
- (vi) a premium of approximately 372.73% to the Company’s unaudited net assets per Common Share of approximately HK\$0.11 as at 31 March 2022, based on unaudited net assets attributable to the Shareholders of approximately C\$8,025,609 (equivalent to approximately HK\$49,540,796.30) as at 31 March 2022 and 449,886,520 Common Shares in issue.

Shareholders should be noted that the aforementioned analysis are for illustrative purpose only and does not purport to represent how the actual Amended Exercise Price would be based on the ACP of the Common Shares in the five Trading Days immediately preceding the date of the Meeting.

According to the management of the Company, the Amended Exercise Price was determined after arm’s length negotiations between the Company and the Subscriber, taking into consideration of the Current Market Price and the Amended Loan Agreement, the Amendment to the Original Loan Agreement in 2021 Restructuring and the Amendment to the Original Loan Agreement in 2022 Restructuring, including (i) the several times of waiver granted by the Subscriber on the financial covenants of the Original Loan Agreement to avoid the Company exposing to the risk of breaching the financial covenants with the Subscriber; (ii) the Proposed Alteration was part and parcel of the Loan restructuring in 2020 and should not be assessed on a stand-alone basis; and (iii) the Proposed Alteration does not have result in additional dilution to the Shareholders.

4.2 Historical performance of Common Share price

The historical closing prices of the Common Shares for the Review Period, are plotted below against the subscription price.



Source: Website of the Stock Exchange

During the Review Period, the closing price of Common Shares was on a sideways trend and remained stable. The closing price of Common Shares ranged between HK\$0.4 and HK\$0.6, with an average of approximately HK\$0.5 during the Review Period.

4.3 *Trading volume of Common Shares*

Set out below are the average daily trading volumes of the Common Shares during the Review Period.

	Average daily trading volumes during the period/month <i>(Common Shares)</i>	Percentage of average daily trading volumes over the issued Common Shares of the Company as at period/month end <i>(approximate %)</i>
2022		
From 21 January 2022 to 31 January 2022	17,429	0.004
February	3,471	0.001
March	41,435	0.010
April	5,278	0.001
May	42,250	0.010
June	16,762	0.004
From 1 July 2022 to the Latest Practicable Date	58,333	0.013

Source: Website of the Stock Exchange

As illustrated above, the percentage of average daily trading volumes over the issued Common Shares of the Company as at month end ranged from 0.001% to approximately 0.013% during the Review Period. During the Review Period, 59 Trading Days out of 121 Trading Days have no trading volumes. We considered that the percentage of average daily trading volumes over the issued Common Shares of the Company as at month end during the Review Period were low compared with the number of Warrant Shares.

Based on the above analysis on the historical performance of Common Share price and the trading volume of Common Shares, we are of the view and concur with the Directors' view that the Common Share price and the trading volume of Common Shares would not be highly volatile between the Latest Practicable Date and the date of the Meeting.

4.4 *Comparable analysis of the subscription price*

In assessing whether the Amended Exercise Price is fair and reasonable, we carried out a comparable analysis on the aggregate price of the subscription price and the exercise price of unlisted warrants (the “**Warrants Issue Comparables**”) as announced by companies listed on the Stock Exchange from 21 July 2021, being the precedent twelve months from the Latest Practicable Date. We consider that the period is representative because it demonstrates the

recent market sentiments and practice prior to the Latest Practicable Date. We also consider that the Warrants Issue Comparables are meaningful, fair and representative for reflecting the recent market environment regarding issue of unlisted warrants.

Based on the aforesaid selection criteria, we have identified an exhaustive list of 4 Warrants Issue Comparables, details of which are set out below:

No.	Name of company	Stock code	Date of initial announcement	Premium/(Discount) of the aggregate of the subscription price and exercise price over/(to) closing price on the last trading day prior to/on the date of relevant announcement/ agreement (%)	Premium/(Discount) of the aggregate of the subscription price and exercise price over/(to) average closing price on the last 5 trading days prior to/on the date of relevant announcement/ agreement (%)
1.	Coolpad Group Limited	2369	4 October 2021	89.71–155.00	87.50–152.03
2.	Echo International Holdings Group Limited	8218	25 March 2022	—	(1.07)
3.	Bonjour Holdings Limited	653	28 March 2022	38.69	37.68
4.	Cornerstone Technologies Holdings Limited	8391	30 March 2022	(45.65)	(44.44)
			Mean	60.07	58.63
			Median	64.20	62.59
			Maximum	155.00	152.03
			Minimum	(45.65)	(44.44)
	Persta Resources Inc.	3395		(3.7) (Note)	— (Note)

Source: Website of the Stock Exchange

Note: Shareholders should be noted that the aforementioned analysis are for illustrative purpose only for the Amended Exercise Price to be set based on the ACP of the Common Shares in the five Trading Days immediately preceding the Latest Practicable Date and does not purport to represent how the premium or discount of the actual Amended Exercise Price to the (i) the closing price on 15 August 2022 immediately preceding the date of the Meeting; and (ii) the average closing price on the last 5 Trading Days immediately preceding the date of the Meeting.

As indicated in the above table, we noted that (i) the discount of approximately 3.7% represented by the Amended Exercise Price to the closing price per Common Share on the Last Trading Day (21 July 2022) is lower than the average premium of the Warrants Issue Comparables and within the range from a discount of approximately 45.65% to a premium of approximately 155.00% of the Warrants Issue Comparables (the “**Last Trading Day Market Range**”); and (ii) no premium or discount represented by the Amended Exercise Price to the average closing price per Common Share on the last five Trading Days up to and including the

Last Trading Day (21 July 2022) is lower than that of the average premium of the Warrants Issue Comparables and within the range from a discount of approximately 44.44% to a premium of approximately 152.03% of the Warrants Issue Comparables (the “**Five Day Last Trading Day Market Range**”).

Notwithstanding that we at present cannot predict the future trend of the Company’s share price and the actual Amended Exercise Price, having considered that

- (i) the Proposed Alteration was part and parcel of the Loan restructuring in 2020 and should not be assessed on a stand-alone basis;
- (ii) the Proposed Alteration, together with the Loan restructuring in 2020 allowed the Company to avoid the risk of breaching the financial covenants with the Subscriber, resulting in potential default of the Loan which outweigh the material reduction in gross proceeds from the exercise of the Warrants;
- (iii) the Proposed Alteration does not have result in additional dilution to the Shareholders;
- (iv) the Proposed Alteration is subject to the approval from the Shareholders;
- (v) the closing price of Common Shares was on a sideways trend and remained stable during the Review Period and would not be highly volatile between the Latest Practicable Date and the date of the Meeting;
- (vi) the trading volume of Common Shares were low compared with the Warrants Shares during the Review Period and would not be highly volatile between the Latest Practicable Date and the date of the Meeting; and
- (vii) for illustration purpose only, the premium represented by the Amended Exercise Price based on the ACP of the Common Shares in the five Trading Days immediately preceding the Latest Practicable Date falls within the Last Trading Day Market Range and Five Day Last Trading Day Market Range.

Based on the above, we concur with the Directors’ view that (i) the Amended Exercise Price is fair and reasonable so far as the Shareholders are concerned, and in the interest of the Company and Shareholders as a whole; and (ii) the Common Share price would not be highly volatile between the Latest Practicable Date and the date of the Meeting.

4.5 Other terms of the Proposed Alteration

Furthermore, we have also reviewed other terms of the Proposed Alteration, including, among others, the conditions precedent, and nothing has come to our attention that they are not on normal commercial terms. Please refer to the sub-paragraph headed “Conditions precedent” under the paragraph headed “The Proposed Alteration” in the Letter from the Board for further details of the conditions precedent.

Having considered (i) the background and reasons of the Proposed Alteration as mentioned in the paragraph headed “2. Background and reasons of the Proposed Alteration” above in this letter; and (ii) the Amended Exercise Price is fair and reasonable as discussed in this paragraph, we are of the view that the Proposed Alteration are fair and reasonable.

5. Potential dilution effect on the shareholding of the Company

As set out in the table showing the change in shareholding structure of the Company in the paragraph headed “Effect of the exercise of the Warrants on the shareholding structure of the Company” in the Letter from the Board, the shareholding in the Company held by existing public Shareholders (excluding the Subscriber) would be diluted from approximately 25.01% as at the Latest Practicable Date to approximately 24.57% immediately upon allotment and issue of the Warrant Shares (assuming there will be no other changes in the issued share capital of the Company between the Latest Practicable Date and the exercise of the subscription rights attaching to the Warrants save for the allotment and issue of the Warrant Shares). As stated in the Letter from the Board, (i) other than being a party to the Original Loan Agreement and a holder of the Original Warrant Certificate, to the best knowledge, information and belief of the Directors and after making all reasonable enquiries, the Subscriber and its ultimate beneficial owner are third parties independent of and not connected with the Company and its connected persons; and (ii) the Company, its close associates and the core connected persons of the Company (so far as is known to the directors of the Company after making reasonable enquiries) had no dealings in the Warrants and the underlying securities to which the Warrants relate, during the period commencing three months prior to the announcement of the Warrant proposal (i.e. 15 May 2018) and ending on the date of this circular. We concur with the Directors’ view that the Subscriber is a third parties independent of and not connected with the Company and its connected persons.

Pursuant to the Letter from the Board, immediately after the allotment and issue of the Warrant Shares upon full exercise of the subscription rights attaching to the Warrants pursuant to the terms of the Original Warrant Certificate (assuming there is no change in the issued share capital of the Company between the Latest Practicable Date and the exercise of the subscription rights attaching to the Warrants save for the allotment and issue of the Warrant Shares), approximately 26.32% of the issued share capital of the Company will be held by the other Shareholders, including the existing public Shareholders and the Subscriber. In such case, the Company will continue to satisfy the minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules.

Taking into account (i) the Proposed Alteration was part and parcel of the Loan restructuring in 2020 and should not be assessed on a stand-alone basis; (ii) the Proposed Alteration, together with the Loan restructuring in 2020 allowed the Company to avoid the risk of breaching the financial covenants with the Subscriber, resulting in potential default of the Loan which outweigh the material reduction in gross proceeds from the exercise of the Warrants; (iii) the Proposed Alteration does not have result in additional dilution to the Shareholders; (iv) the Company would receive the gross proceeds from the Subscriber and provide additional capital to the Company with no incremental dilution to the Shareholders if

the Subscriber exercises the Warrants; and (v) the Proposed Alteration are fair and reasonable as mentioned in paragraph headed “4. Principal terms of the Proposed Alteration” above in this letter, we consider that the potential dilution effect on the shareholding of existing public Shareholders in the Company is acceptable.

6. Financial effect of the subscription

Net assets and gearing

According to the First Quarter Results 2022, the Company’s current liabilities exceeded its current assets by approximately C\$17.9 million as at 31 March 2022. Pursuant to the First Quarter Results 2022, the Company’s net assets were approximately C\$8.0 million as at 31 March 2022 and the Gearing Ratio of the Company was approximately 84%. In the event that the subscription rights attaching to the Warrants are exercised in full, the Company’s assets and equity will increase. Since the exercise of the subscription rights attaching to the Warrants would not lead to any change in the Company’s total liabilities while the Company’s total assets are expected to increase, the Gearing Ratio will decrease. Assuming that there is no material change on the asset position of the Company from 31 March 2022 to 15 May 2023 (the maturity date of the Loan and the Warrants), the Company’s net assets will increase when compared with that of 31 March 2022.

Working capital

As advised by the management of the Company, the fund raised from the exercise of the subscription rights attaching to the Warrants will be applied for general working capital of the Company, and thus the working capital of the Company will be improved. Shareholders should be noted that the aforementioned analysis are for illustrative purpose only and does not purport to represent how the financial performance and financial position of the Company would be in the event that the subscription rights attaching to the Warrants are exercised in full.

RECOMMENDATION

Having taken into consideration of the above factors and reasons, we are of the view and concur with the view of the management of the Company that the Proposed Alteration are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Yours faithfully,
For and on behalf of
Dakin Capital Limited
Tam Kin Fong
Managing Director

Note: Mr. Tam Kin Fong is a responsible officer of Dakin Capital Limited, which is licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has been active in the field of corporate finance advisory for over 20 years, and has been involved in and completed various corporate finance advisory transactions.