ANNUAL FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Persta Resources Inc.

Opinion

We have audited the financial statements of Persta Resources Inc. (the "Company"), which comprise the statement of financial position as at December 31, 2018, the statements of loss and other comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our report. We are independent of the Company in accordance with applicable independence standards, and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
Liquidity and going concern Refer to notes 2, 4 and 13 to the financial statements.	
At December 31, 2018, the Company has a working capital deficit of $1.6 million and $24 million drawn on its credit facilities. $4 million of the long term debt is to be paid in full on or prior to January 1, 2020. The credit facilities contain multiple covenants to be maintained by the Company. When an entity's management is aware of material	The audit procedures that we performed, amongst others, included: • Examining management's assessment and conclusion relating to the going concern assumption. • Examining management's assessment of the Company's compliance with forecasted financial debt covenants for 2019.

The key audit matter	How the matter was addressed in our audit
uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties must be disclosed.	• Examining management's assessment of and conclusion regarding the ability of the Company to make payments on the long term debt, as they become due. • Evaluating the adequacy of the Company's disclosure in this area.
Valuation of property, plant and equipment ("PP&E") Refer to note 11 to the financial statements.	
At December 31, 2018, the carrying value of the Company's PP&E was approximately $55 million. Impairment testing is required for PP&E when events or changes in circumstances indicate that the carrying amount of PP&E for each cash generating unit may exceed its respective recoverable amount. The assessment of whether such events and circumstances exist at December 31, 2018 includes significant judgment.	The audit procedures that we performed, amongst others, included: • Understanding the process and testing the design and implementation of the key controls over management's and the board of directors' review of externally evaluated reserves and impairment assessment. • Examining and challenging management's assessment of whether indicators of possible impairment were present that would require impairment testing. We challenged management's assessment of whether indicators of possible impairment were present through our knowledge of the oil and gas industry and considering the reserve assessment and evaluation report obtained by the Company from its external reservoir engineers. • Examining the impairment test completed by the Company. We, with the assistance of our valuation specialists, examined the methodology used, the appropriateness of the inputs used in the calculations and the mathematical accuracy. • Completing the procedures required by auditing standards to use the work of the Company's external reservoir engineers. • Evaluating the adequacy of the Company's disclosure in this area.
Valuation of Exploration and Evaluation ("E&E") Assets Refer to note 10 to the financial statements.	
At December 31, 2018, the carrying value of the Company's E&E assets was approximately $43 million. Impairment testing is required for E&E assets when events or changes in circumstances indicate that the carrying amount may exceed its recoverable amount. The assessment of whether such events and circumstances exist at December 31, 2018 includes significant judgment.	The audit procedures that we performed, amongst others, included: • Understanding the process and testing the design and implementation of the key controls over management's and the board of directors' review of E&E assets and impairment assessment. • Inspecting the Company's assessment of whether events and circumstances existed at December 31, 2018 that would indicate that E&E assets are impaired and evaluating the

The key audit matter	How the matter was addressed in our audit
	assumptions used. Our evaluations focused on the status of the extension of the exploration licenses, and evaluation of the Company's planned exploration and development activities. • Evaluating the adequacy of the Company's disclosures in this area.

Information other than the financial statements and our auditor's report thereon

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

- the information included Management's Discussion and Analysis.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis as at the date of this auditors' report.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report 2018" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this information, we are required to report that fact to those charged with governance.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the true and fair presentation of the financial statements in accordance with IFRS and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Murray Suey.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

March 29, 2019

STATEMENT OF FINANCIAL POSITION

As at December 31, 2018

(Expressed in Canadian dollars)

	Note	**As at December 31, 2018** *C$*	As at December 31, 2017 *C$*
ASSETS			
Current assets			
Cash and cash equivalents	*7*	**2,605,709**	2,363,183
Investments	*8*	**—**	3,333,500
Accounts receivable	*9*	**1,196,062**	1,813,992
Prepaid expenses and deposits		**796,744**	870,286
		4,598,515	8,380,961
Non-current assets			
Exploration and evaluation assets	*10*	**43,484,822**	40,065,106
Property, plant and equipment	*11*	**55,498,465**	62,645,297
		98,983,287	102,710,403
TOTAL ASSETS		**103,581,802**	111,091,364
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	*12*	**6,038,478**	8,230,602
Current portion of long term debt	*13*	**—**	22,197,243
Decommissioning liabilities	*14*	**205,836**	205,429
		6,244,314	30,633,274
Non-current liabilities			
Other liabilities	*15*	**4,225,734**	3,798,280
Long term debt	*13*	**23,063,945**	—
Decommissioning liabilities	*14*	**1,987,145**	1,966,719
		29,276,824	5,764,999
TOTAL LIABILITIES		**35,521,138**	36,398,273

	Note	As at December 31, 2018 C$	As at December 31, 2017 C$
SHAREHOLDERS' EQUITY			
Share capital	*16*	**204,366,683**	204,366,683
Warrants	*16*	**647,034**	—
Accumulated deficit		**(136,953,053)**	(129,673,592)
TOTAL EQUITY		**68,060,664**	74,693,091
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**103,581,802**	111,091,364
SUBSEQUENT EVENTS	*30*		

The accompanying notes form part of these annual financial statements.

STATEMENT OF LOSS AND OTHER COMPREHENSIVE LOSS

For the year ended December 31, 2018

(Expressed in Canadian dollars)

		Year ended December 31,	
		2018	2017
	Note	***C$***	*C$*
Production revenue from crude oil and natural gas sales	*17*	**15,364,294**	21,443,207
Royalties		**(1,163,804)**	(2,793,481)
		14,200,490	18,649,726
Trading revenue from natural gas sales	*17*	**1,070,898**	1,240,648
Trading cost from natural gas purchases		**(409,440)**	(499,859)
		661,458	740,789
Net revenue		**14,861,948**	19,390,515
Operating costs		**(5,353,764)**	(5,746,160)
General and administrative costs ("G&A cost")		**(5,584,534)**	(6,149,973)
Depletion and depreciation		**(5,368,825)**	(6,179,377)
Direct write-off of exploration and evaluation assets	*10*	**(1,790,883)**	(900,685)
Impairment losses of property, plant and equipment	*18*	**(1,962,280)**	(2,212,697)
Loss from operations		**(5,198,338)**	(1,798,377)
Other income	*29*	**812,703**	49,066
Transaction costs		**—**	(3,003,350)
Finance expenses	*22*	**(2,893,826)**	(6,884,131)
Loss before income taxes		**(7,279,461)**	(11,636,792)
Income taxes	*23*	**—**	—
Loss and comprehensive loss for the year attributable to owners of the Company		**(7,279,461)**	(11,636,792)
Loss per share			
Basic and diluted	*24*	**(0.03)**	(0.04)

The accompanying notes form part of these annual financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2018

(Expressed in Canadian dollars)

	Note	**Share capital**	**Warrants**	**Accumulated deficit**	**Total equity**
		C$	*C$*	*C$*	*C$*
Balance as at January 1, 2017		169,247,367	—	(118,036,800)	51,210,567
New shares issued	*16*	38,131,133	—	—	38,131,133
Share issue costs	*16*	(3,011,817)	—	—	(3,011,817)
Loss for the year		—	—	(11,636,792)	(11,636,792)
Balance as at December 31, 2017		204,366,683	—	(129,673,592)	74,693,091
Balance as at January 1, 2018		**204,366,683**	**—**	**(129,673,592)**	**74,693,091**
Warrants	*16*	**—**	**647,034**	**—**	**647,034**
Loss for the year		**—**	**—**	**(7,279,461)**	**(7,279,461)**
Balance as at December 31, 2018		**204,366,683**	**647,034**	**(136,953,053)**	**68,060,664**

The accompanying notes form part of these annual financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

(Expressed in Canadian dollars)

		Year ended December 31,	
		2018	2017
	Note	***C$***	*C$*
Operating activities			
Loss for the year		**(7,279,461)**	(11,636,792)
Adjustments for:			
Depletion and depreciation		**5,368,825**	6,179,377
Non-cash finance expenses		**209,660**	598,083
Unrealized foreign exchange (gain)/loss		**(12,624)**	77,709
Direct write-offs on exploration and evaluation assets		**1,790,883**	900,685
Impairment losses of property, plant and equipment		**1,962,280**	2,212,697
Funds from operations		**2,039,563**	(1,668,241)
Changes in non-cash working capital	*7*	**1,474,482**	(381,231)
Net cash generated from/(used in) operating activities		**3,514,045**	(2,049,472)
Investing activities			
Expenditures on property, plant and equipment		**(79,683)**	(2,099,064)
Expenditures on exploration and evaluation assets		**(7,882,275)**	(16,764,568)
Investments	*8*	**3,333,500**	(3,333,500)
Net cash used in investing activities		**(4,628,458)**	(22,197,132)

	Note	Year ended December 31, 2018 C$	2017 C$
Financing activities			
Proceeds from share issuance, net of issue cost		**—**	36,146,427
Proceeds from debt, net	*13*	**18,730,281**	—
Proceeds from warrants, net	*16*	**647,034**	—
Proceeds from bank loan		**—**	2,791,804
Repayment of bank loan	*13*	**(18,033,000)**	(16,216,889)
Net cash generated from financing activities		**1,344,315**	22,721,342
Effect of exchange rate fluctuation on cash and cash equivalents		**12,624**	(77,709)
Increase/(decrease) in cash and cash equivalents		**242,526**	(1,602,971)
Cash and cash equivalents at the beginning of the year		**2,363,183**	3,966,154
Cash and cash equivalents at the end of the year		**2,605,709**	2,363,183
Supplementary information:			
Interest paid		**2,358,125**	5,813,111

The accompanying notes form part of these annual financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended December 31, 2018

(Expressed in Canadian dollars unless otherwise indicated)

1 CORPORATE INFORMATION

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

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

2 BASIS OF PREPARATION

(a) Statement of compliance

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

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing these Financial Statements, the Company has adopted all applicable new and revised IFRSs to the year ended December 31, 2018, except for any new standards or interpretations that are not yet effective for the year ended December 31, 2018. The revised and new accounting standards and interpretations issued but not yet effective are set out in Note 5.

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

The accounting policies set out below have been applied consistently in all years presented in the Financial Statements.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Judgments made by management in the application of IFRSs that have significant effect on the Financial Statements and major sources of estimation uncertainty are discussed in Note 4.

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

Significant doubt about the Company's ability to continue as a going concern would exist when relevant conditions and events, considered in the aggregate, indicate that it is probable that the Company will not be able to meet its obligations as they become due for a period at least, but not limited to twelve months from the balance sheet date. When the Company identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Company considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt. The mitigating effect of management's plans are considered to the extent that; (i) it is probable that the plans will be effectively implemented and, if so, (ii) it is probable that the plans will mitigate the conditions or events that raise significant doubt about the Company's ability to continue as a going concern.

After considering its plans to mitigate the going concern risk, management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Furthermore, the estimates made by management in reaching this conclusion are based on information available as of the date these Financial Statements were authorized for issuance.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been applied consistently in all years presented in these Financial Statements.

(a) Joint arrangements

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

(b) Revenue recognition

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

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

(c) Finance income and expenses

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

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

(d) Financial instruments

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

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

- ***Amortized cost***

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

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

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

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

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

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

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

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

(e) Exploration and evaluation assets

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

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

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

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

(f) Property, plant and equipment

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

Development and production assets

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

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

(g) Impairments

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

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

Value in use is estimated by consideration of the following:

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

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

FVLCD is estimated by consideration of the following:

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

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

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

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

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

(h) Reversal of impairment

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

(i) Depletion and depreciation

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

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

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

(j) Decommissioning liability

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

(k) Share capital

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

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

(l) Income taxes

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

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

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

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

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

(m) Related party transactions

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

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

(ii) has significant influence over the Company; or

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

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

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

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

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

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

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

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

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

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

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

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

(n) Cash and cash equivalents

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

(o) Loss per share

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

4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Critical Judgments in Applying Accounting Policies

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

(i) *Identification of CGUs*

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

(ii) *Identification of impairment indicators*

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty for the year ended December 31, 2018 that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

(i) *Reserves*

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

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

(ii) *Decommissioning obligations*

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

(iii) *Impairment of non-financial assets*

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

(iv) *Liquidity*

The Company has a working capital deficiency as at December 31, 2018 of C$1.6 million and incurred a loss for the year ended December 31, 2018 of C$7.3 million. As at December 31, 2018 the Company had a C$4.2 million bank loan and C$20 million of subordinated debt ("**SubDebt**") outstanding (refer to Note 13).

The Company was not in compliance with the net debt to run rate EBITDA covenant of the SubDebt agreement as at September 30, 2018 and obtained a waiver for that covenant breach. Effective December 31, 2018 the Company and the SubDebt lender ("**SubLender**") amended the net debt to run rate EBITDA covenant effective for the quarter ended December 31, 2018 and thereafter. At December 31, 2018, the Company was in compliance with all covenants it is subject to under the bank loan and SubDebt.

In March 2019 the Company and the SubLender amended the SubDebt agreement such that the net debt to run rate EBITDA covenant was eliminated for calendar 2019. The SubLender further agreed to defer the monthly interest due for the SubDebt starting January 1, 2019. The interest will be deferred until the earlier of the repayment of the bank loan or January 1, 2020.

The bank loan is subject to a semi-annual borrowing base review, and the next review is scheduled to occur in the second quarter of 2019. That review may result in a reduction in the funds available to the Company.

Additional funds are required to enable the Company to further develop its oil and gas properties. Subject to approval by the SubLender, an additional C$5 million of SubDebt is available under the amended SubDebt agreement. On March 25, 2019, the Company announced it entered into a subscription agreement with a subscriber to conditionally issue 23.6 million common shares at a price of HK$1.50 per share for gross proceeds of HK$35.4 million (approximately C$6 million) (the "**Subscription**"). The Subscription is anticipated to close on or before May 14, 2019.

There can be no guarantees that the Company will be able to access any additional funds pursuant to the amended SubDebt agreement, nor can there be any guarantee that additional funds will be raised from the Subscription.

Management believes the borrowing base review with the bank will not result in a material reduction in the borrowing base below the level of bank debt currently outstanding, and that the necessary funds will be available to enable it to develop its properties and meet its obligations as they become due.

(v) *Taxes*

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

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

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. Estimates of future taxable income are based on forecasted funds from operations. During the years ended December 31, 2018 and 2017, the Company has not recorded any deferred tax assets or liabilities due to the uncertainty of future taxable profits.

5 CHANGES IN ACCOUNTING POLICIES

IFRS 9 — Financial Instruments replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. As of January 1, 2018, the Company adopted all of the requirements of IFRS 9. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("**FVTOCI**") and fair value through profit or loss ("**FVTPL**"). The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. IFRS 9 has introduced a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have any impact on the Financial Statements of the Company. Accounts receivable, accounts payable, accrued liabilities and long term debt are classified and measured at amortized cost. The Company does not have any asset contracts and debt investments measured at FVTOCI.

IFRS 9 also contains a new hedge accounting model, however the Company does not apply hedge accounting to any of its risk management contracts. The adoption of IFRS 9 has been applied retrospectively and did not result in a change in the carrying value of any of the Company's financial instruments on the transition date.

IFRS 15 — Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. The Company adopted the standard on January 1, 2018 using the modified retrospective approach. There were no changes to reported net earnings or retained earnings as a result of adopting IFRS 15. IFRS 15 requires additional disclosures to disclose disaggregated revenue by product type, refer to note 17.

Revenue from the sale of natural gas, natural gas liquids, condensate and crude oil (collectively the "**products**") is recognized based on the consideration specified in contracts with customers and when the control of the products are transferred to the customers and collection is reasonably assured. The revenue is based on prices specified in the contract and the revenue is recognized when it transfers control of the product to a customer. The sales or transaction price of the Company's products to customers are made pursuant to contracts based on prevailing commodity pricing and adjusted by quality and equalization adjustments. The revenue is collected on the 25th day of the month following production.

IFRS 16 — Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (the "**lessee**") and the supplier (the "**lessor**") and replaces the previous leases standard, IAS 17 Leases. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. The Company is in the process of evaluating the impact of IFRS 16 on its financial statements and the extent of the impact has not yet been determined.

6 DETERMINATION OF FAIR VALUE

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

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

The fair value of cash and cash equivalents, investment, accounts receivable, deposits and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2018, the fair value of these balances approximated their carrying value due to their short term to maturity.

(b) Loans

As at December 31, 2018, the fair value of the Company's bank loans approximates their carrying value, as they bear interest at floating rates, the premium charged as at December 31, 2018 was indicative of the Company's current credit spread and the loans are due on demand.

(c) Financial derivative instruments

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

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

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

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

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

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

— Bank loans:	Level 2
— Other liabilities:	Level 3

During the year ended December 31, 2018, there were no transfers between Level 1, Level 2 and Level 3 classified assets and liabilities.

7 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	As at December 31, 2018	As at December 31, 2017
	C$	*C$*
Deposits with banks and other financial institutions	**2,600,382**	2,358,542
Cash on hand	**5,327**	4,641
Cash and cash equivalents in the statement of financial position and statement of cash flows	**2,605,709**	2,363,183

(b) Supplementary cash flows information

	Year ended December 31, 2018 C$	2017 C$
Changes in non-cash working capital and other liabilities:		
Accounts receivable	**(617,930)**	1,414,063
Prepaid expenses and deposits	**(73,542)**	514,912
Accounts payable and accrued liabilities and other liabilities	**1,764,669**	8,571,653
	1,073,197	10,500,628
Add: Movement in non-cash working capital and other liabilities directly included in investing and financing activities	**401,285**	(10,881,859)
Movement in non-cash working capital directly included in operating activities	**1,474,482**	(381,231)

8 INVESTMENTS

	As at December 31, 2018 C$	As at December 31, 2017 C$
Short term investments	**—**	3,333,500

Prior to April 25, 2018, the Company held a Guaranteed Investment Certificate ("**GIC**") amounting to C$3,223,500 that was in place as a security against a C$3,223,500 irrevocable standby letter of credit for the construction of the necessary facilities related to the Company's Dismal Creek South Metering Station. This GIC was for a period of one year from the date of issuance on March 15, 2017, carried interest at 0.45% per annum, and was renewed for one year on the same terms expiring March 15, 2019. On May 7, 2018, the Company terminated this GIC receiving C$3,228,477 (interest included), as the Company obtained a performance services guarantee ("**PSG**") from Export Development Canada ("**EDC**") to guarantee qualifying letters of credit ("**L/C**"). Refer to Note 27(e).

The Company also held a GIC amounting to C$110,000 that was in place as a security against a C$110,000 irrevocable letter of credit for transportation services. This GIC was for a period of one year from the date of issuance on January 5, 2017, carried a 0.45% interest per annum and was renewed for one year on the same terms expiring January 5, 2019. On May 7, 2018, the Company terminated this GIC receiving C$110,323 (interest included), as the Company obtained a PSG from EDC to guarantee qualifying L/C, refer to Note 27(e). The irrevocable standby letter of credit was automatically extended for one year on January 5, 2018 and expired on January 5, 2019.

9 ACCOUNTS RECEIVABLE

	As at December 31, 2018	As at December 31, 2017
	C$	*C$*
Trade receivables	**1,196,062**	1,813,992

(a) Aging analysis of trade receivables

As at December 31, 2018 and December 31, 2017, the aging analysis of trade receivables (included in accounts receivable), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at December 31, 2018	As at December 31, 2017
	C$	*C$*
Within 1 month	**1,196,062**	1,798,983
1 to 3 months	**—**	144
Over 3 months	**—**	14,865
	1,196,062	1,813,992

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

(b) Impairment of accounts receivable

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Company determines that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

No trade receivables, which are included in accounts receivable, are considered individually nor collectively to be impaired. No material balances of trade receivables are past due, and no impairment loss has been recognized for the years ended December 31, 2018 and 2017.

10 EXPLORATION AND EVALUATION ASSETS

	As at December 31, 2018	As at December 31, 2017
	C$	*C$*
Balance, beginning of year	**40,065,106**	14,562,811
Additions	**5,210,599**	26,402,980
Write-offs	**(1,790,883)**	(900,685)
Balance, end of year	**43,484,822**	40,065,106

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

During the year ended December 31, 2018, the Company completed one well and incurred E&E costs totalling C$5,210,599 (December 31, 2017: C$26,402,980). Included in E&E additions are G&A costs of C$524,625 (December 31, 2017: C$674,652) which were capitalized in accordance with the Company's accounting policies. Based on the Company's accounting policy, once the technical feasibility and commercial viability of the extraction of resources in an area of interest are determined, E&E assets attributable to that area are assessed for impairment with any impairment loss recognized in profit or loss. The remaining carrying value of the relevant E&E assets is then reclassified as development and production assets within PP&E. As at December 31, 2018, the technical feasibility and commercial viability of the four wells drilled in 2017 has not been demonstrated. In 2019, subject to availability of capital, the Company anticipates to complete extended production tests and evaluate development options for these wells.

For the year ended December 31, 2018, the Company wrote-off C$1,790,883 (December 31, 2017: C$900,685) of E&E assets attributable to land lease expiries. As at December 31, 2018, the Company concluded that there were no trigger for impairment on its E&E assets.

11 PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depletion and depreciation	Net book value
	C$	*C$*	*C$*
Balance, January 1, 2017	152,091,843	(83,803,018)	68,288,825
Additions	2,315,400	—	2,315,400
Change in decommissioning obligations	433,146	—	433,146
Write-offs	(2,212,697)	—	(2,212,697)
Depletion and depreciation	—	(6,179,377)	(6,179,377)
Balance, December 31, 2017	152,627,692	(89,982,395)	62,645,297
Balance, January 1, 2018	**152,627,692**	**(89,982,395)**	**62,645,297**
Additions	**203,679**	**—**	**203,679**
Change in decommissioning obligations	**(19,405)**	**—**	**(19,405)**
Impairment loss	**(1,962,280)**	**—**	**(1,962,280)**
Depletion and depreciation	**—**	**(5,368,826)**	**(5,368,826)**
Balance, December 31, 2018	**150,849,686**	**(95,351,221)**	**55,498,465**

Substantially all of PP&E consists of development and production assets. Included in PP&E additions for the year ended December 31, 2018 are G&A costs of C$13,432 (December 31, 2017: C$46,338) which were capitalized in accordance with the Company's accounting policies.

Depletion, depreciation and impairment charges

Depletion and depreciation, impairment of PP&E, and any reversal thereof, are recognized as separate line items in the statement of loss and other comprehensive loss. The depletion calculation for the year ended December 31, 2018 includes estimated future development costs of C$24,490,000 (December 31, 2017: C$24,380,000) associated with the development of the Company's proved plus probable reserves.

For the year ended December 31, 2018, there were no write-offs (December 31, 2017: C$2,212,697) of PP&E attributable to land lease expiries.

As December 31, 2018, the Company has identified indicators of impairment in its PPE assets in the Basing Alberta CGU attributable to declines in natural gas prices, and no indicator of impairment in its PPE assets in the Dawson CGU. The Company calculated the recoverable amount of the Basing Alberta CGU based on forecasted cash flows from proved plus probable reserves using a 12% pre-tax discount rate. Based on the assessment as at December 31, 2018, the carrying amount of the Company's Basing CGU was higher than its recoverable amount. As such, the Company recognized an impairment loss of C$1,962,280 (December 31, 2017: nil) for this CGU (Note 18).

12 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2018 *C$*	As at December 31, 2017 *C$*
Trade payables	**651,209**	182,386
Accrued liabilities	**1,432,903**	2,679,869
Accrued compensation for independent non-executive directors per Phantom Unit Plan *(Note)*	**373,642**	262,833
Subtotal	**2,457,754**	3,125,088
Other payables	**3,580,724**	5,105,514
Total	**6,038,478**	8,230,602

Note: The accrued compensation for independent non-executive directors per Phantom Unit Plan is accrued quarterly and will be paid in accordance with the terms set out in the Phantom Unit Plan.

As at December 31, 2018, there were C$3,095,029 of unpaid capital expenditures included in other payables (December 31, 2017: C$4,348,191).

All trade payables and accrued liabilities are expected to be settled within one year or are payable on demand.

Aging analysis of trade payables and accrued liabilities

As at December 31, 2018 and December 31, 2017, the aging analysis of trade payables and accrued liabilities (included in accounts payable and accrued liabilities) is as follows:

	As at December 31, 2018 *C$*	As at December 31, 2017 *C$*
Within 1 month	**1,534,348**	1,226,481
1 to 3 months	**402,865**	1,635,774
Over 3 months but within 6 months	**146,899**	—
	2,084,112	2,862,255

13 LONG TERM DEBT

	As at December 31, 2018	As at December 31, 2017
	C$	*C$*
Bank loan	**4,164,243**	22,197,243
Subordinated debt	**20,000,000**	—
Less: Deferred financing costs	**(1,100,298)**	—
Balance, end of year	**23,063,945**	22,197,243
Current	**—**	22,197,243
Long term	**23,063,945**	—

(a) Bank loan

On August 24, 2017, the Company and its lender (the "**Lender**") agreed to an early termination of its existing facility and then entered into a new facility (the "**New Facility**"). A financing fee totaling C$4.3 million was paid to the Lender upon termination of the old facility and it has been recognized under finance expenses.

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

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

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

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

The principal and all accrued and unpaid interest and fees are due on the maturity date or in accordance with the terms of the New Facility. The Company maintains no letter of credit, as at December 31, 2018 (December 31, 2017: C$558,000) for transportation services in relation to the New Facility.

(b) Subordinated debt

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

The SubDebt is secured by a general security agreement over all present and after-acquired property of the Company subject to the fixed and floating first priority held by the Lender. Prior to December 2018, the SubDebt was subject to the following covenants: (a) maintenance at the end of each fiscal quarter a working capital ratio not less than 1.0:1.0; and (b) as measured at the end of each fiscal quarter, net debt to run rate EBITDA not exceeding 4.0/1.0 through the fiscal quarter ending March 2019, and 3.0/1.0 through the fiscal quarter ending March 31, 2020 and 2.5/1.0 thereafter; and (c) net debt to total proved reserves not exceeding 0.75/1.0 through the fiscal quarter ending March 31, 2019, and not exceeding 0.60/1.0 thereafter; and (d) maintaining the Company's Alberta Energy liability management ratio above 2.0/1.0.

Pursuant to the SubDebt agreement, no later than September 30 in each year, the Company must enter into arrangements to protect against fluctuations in commodity prices for 80% of its forecast production volume from proved Developed Producing Reserves.

Effective December 31, 2018, the Company and SubLender amended the SubDebt agreement (the "**First Amending Agreement**") such that run rate EBITDA for the covenant calculation was changed to trailing twelve months ("**TTM**") EBITDA, and for the fiscal quarter ended December 31, 2018, net debt to TTM EBITDA would not exceed 4.75/1.0.

Under the terms of the SubDebt agreement, "net debt" is defined as the consolidated debt of the Company, less cash held, and excluding debt defined as other liabilities (Note 15). Under the terms of the First Amending Agreement, TTM EBITDA is defined as the annualized earnings before deduction of interest expenses/income, income taxes, depletion and depreciation, write-offs, unrealized hedging gains/losses and share-based compensation for the four most recent fiscal quarters.

The Company was not in compliance with the net debt to run rate EBITDA covenant of the SubDebt agreement as at September 30, 2018 and obtained a waiver for that covenant breach. After giving effect to the First Amending Agreement, the Company is in compliance with all covenants for the New Facility and SubDebt as at December 31, 2018.

In connection with the SubDebt, the Company sold 8 million share purchase warrants to the SubLender for C$750,000, refer to Note 16(c). The Company completed an initial draw of C$20.0 million from the SubDebt at closing. Pursuant to the Second Amending Agreement, subject to approval by the SubLender, the Company has an additional C$5.0 million of SubDebt available.

C$1.25 million in costs have been incurred in relation to the SubDebt and such amounts have been paid to the SubLender. These costs have been capitalised in long term debt and amortised until the maturity of the SubDebt.

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

In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices as well as pipeline and transportation capacity constraints, management's ability to prepare financial forecasts is challenging.

Due to this volatile economic environment, it is possible that the Company could breach the covenants noted within its facility and SubDebt agreements in future periods. If a covenant violation does occur, this will represent an event of default under the facility and the lenders will have the right to demand repayment of all amounts owed under the facility and SubDebt.

14 DECOMMISSIONING LIABILITIES

The total future decommissioning obligations were estimated based on the Company's net ownership interest in petroleum and natural gas assets including well sites, gathering systems and facilities, the estimated costs to abandon and reclaim the petroleum and natural gas assets and the estimated timing of the costs to be incurred in future periods. As at December 31, 2018, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations to be approximately C$3.0 million which will be incurred between 2019 and 2067. The majority of these costs will be incurred by 2037. As at December 31, 2018, an average risk free rate of 2.04% (December 31, 2017: 1.87%) and an inflation rate of 2% (December 31, 2017: 2%) were used to calculate the decommissioning obligations.

The following table reconciles the Company's decommissioning liabilities:

	As at December 31, 2018	As at December 31, 2017
	C$	*C$*
Balance, beginning of year	**2,172,148**	1,708,047
Change in estimate	**(19,405)**	(39,853)
Liabilities incurred	**—**	472,999
Accretion expense	**40,238**	30,955
Balance, end of year	**2,192,981**	2,172,148
Current	**205,836**	205,429
Long-term	**1,987,145**	1,966,719

15 OTHER LIABILITIES

	As at December 31, 2018	As at December 31, 2017
	C$	*C$*
Other liabilities	**4,225,734**	3,798,280

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

As at December 31, 2018, the Company has completed one well per the Contract, incurring total capital expenditure of C$8,009,704 (which included capital expenditure of C$4,192,626 in 2017). In accordance with the payment terms, the Company has classified C$2,992,964 within current liabilities with the remaining C$4,225,734 as other liabilities.

16 SHARE CAPITAL

(a) Authorized:

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

(b) Issued:

	Common Shares Number	Common Shares Amount *C$*
At January 1, 2017	208,706,520	169,247,367
Shares issued for cash	69,580,000	38,131,133
Share issue costs	—	(3,011,817)
At December 31, 2017 and December 31, 2018	278,286,520	204,366,683

There were no share capital transactions during the year ended December 31, 2018.

During the year ended December 31, 2017, the Company conducted the following transactions:

(i) On March 10, 2017, the Company was successfully listed on the Stock Exchange and issued 69,580,000 new shares at a price of HK$3.16 per share (C$0.55 per share), raising gross proceeds of HK$219,872,800 (C$38,131,133). The costs associated with the issuance of new shares amounted to C$3,011,817.

(c) Warrants:

On May 16, 2018, the Company conditionally issued 8.0 million warrants to the SubLender for a consideration of C$750,000. The warrants were conditional on approval from the Stock Exchange and the Company's shareholders, which was obtained on August 13, 2018 through a special meeting of shareholders.

The warrants have an exercise price of HK$3.16 per warrant and a term of 5 years. The fair value of these warrants was estimated to be C$750,000 using the Black-Scholes-Merton option pricing model based on a volatility of 59.9%, risk-free interest rate of 2.12%, expected life of 5 years, no dividend yield and an exchange rate of HK$1 per C$0.1650. As at December 31, 2018, C$102,966 in costs were incurred for the sale of the warrants.

17 REVENUE

The Company sells its products pursuant to variable-price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The amount of each significant category of revenue recognized for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31,	
	2018	2017
	C$	*C$*
Production revenue from natural gas, natural gas liquids and condensate sales	**13,549,538**	19,961,130
Production revenue from crude oil sales	**1,814,756**	1,482,077
	15,364,294	21,443,207
Trading revenue from natural gas sales	**1,070,898**	1,240,648

For the year ended December 31, 2018, the Company's customer base includes two customers (2017: two customers), with whom transactions have exceeded 10% of the Company's revenues. For the year ended December 31, 2018, revenues from sales to these customers amounted to C$13,916,748 (December 31, 2017: C$18,043,366).

18 IMPAIRMENT LOSS

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

As at December 31, 2018 and 2017, management identified impairment triggers for its Basing, Alberta CGU due to declines in forecasted natural gas prices, and no impairment triggers for its Dawson, Alberta CGU.

Based on its assessment as at December 31, 2018, the carrying amount of the Company's Basing CGU was higher than its recoverable amount. As such, the Company recognized an impairment loss of C$1,962,280 for the year ended December 31, 2018.

Based on the assessment as at December 31, 2017, the carrying amount of the Company's Basing CGU was lower than its recoverable amount. As such, no impairment loss was recognized.

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

As at December 31, 2018, the Company utilized the following benchmark prices to determine the forecast prices in the value in use calculation:

Year	**Edmonton Oil** *(C$/Bbl)*	**AECO Gas** *(C$/mmbtu)*
2019	63.33	1.85
2020	75.32	2.29
2021	79.75	2.67
2022	81.48	2.90
2023	83.54	3.14
2024	86.06	3.23
2025	89.09	3.34
2026	92.62	3.41
2027	94.57	3.48
2028	96.56	3.54
2029(1)	+2.0%/yr	+2.0%/yr

(1) Approximate percentage change in each year after 2029 to the end of the reserve life.

As at December 31, 2017, the Company utilized the following benchmark prices to determine the forecast prices in the value in use calculation:

Year	**Edmonton Oil** *(C$/Bbl)*	**AECO Gas** *(C$/mmbtu)*
2018	70.25	2.20
2019	70.25	2.54
2020	70.31	2.88
2021	72.84	3.24
2022	75.61	3.47
2023	78.31	3.58
2024	81.93	3.66
2025	85.54	3.73
2026	88.35	3.80
2027	90.22	3.88
2028(1)	+2.0%/yr	+2.0%/yr

(1) Approximate percentage change in each year after 2028 to the end of the reserve life.

19 PERSONNEL COSTS, REMUNERATION POLICY AND AUDITORS' REMUNERATION

Personnel costs incurred during the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31,	
	2018	2017
	C$	*C$*
Personnel costs		
Salaries, wages and other benefits	**2,167,774**	2,289,072
Retirement benefits contribution	**33,392**	33,702
	2,201,166	2,322,774

The Company's remuneration and bonus policies are determined by the performance of individual employees.

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

Phantom Unit Plan for independent non-executive directors

The Company has in place a phantom unit plan for its independent non-executive directors effective March 10, 2017 and applied retrospectively started from February 26, 2016 (the "**Phantom Unit Plan**"). In order for the eligible directors to receive the phantom units issued under the Phantom Unit Plan (the "**Phantom Units**"), they need to complete a participation form prior to the commencement of each fee period (i.e. twelve-month period commencing January 1 and ending on December 31). Since 2016, each eligible Director agreed in writing to receive 60% of their fees (i.e. the designated percentage) relating to future services as a director in the form of phantom units under the Phantom Unit Plan, and the eligible directors have agreed to receive C$15,000 quarterly under the Phantom Unit Plan (the "**Phantom Fee**").

Under the terms of the Phantom Unit Plan, the Company calculates the Phantom Units dividing the Phantom Fee by the weighted average-trading price of the Company's common shares for the five days preceding each quarter end multiplied by the number of Phantom Units awarded during the quarter. For the year ended December 31, 2018, total compensation accrued for each director under the Phantom Unit Plan is based on the total number of units awarded in the preceding quarters multiplied by the weighted average-trading price of the Company's common shares for the five days preceding the period end.

During the year ended December 31, 2018, the Company incurred C$110,809 (December 31, 2017: C$122,833) of directors' compensation per the Phantom Unit Plan. As at December 31, 2018, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$373,642 (December 31, 2017: C$262,833).

Upon a director ceasing to be a member of the Board, their Phantom Units may be redeemed by the director for cash at an amount calculated as the number of units redeemed multiplied by the trading price of the Company's shares of the redemption date.

Auditors' remuneration incurred during the years ended December 31, 2018 and 2017 were as follows:

	Year ended December 31,	
	2018	2017
	C$	*C$*
Auditors' remuneration		
— audit services	**174,525**	608,250
— non-audit services	**61,619**	14,648

20 DIRECTORS' EMOLUMENTS

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

Year ended December 31, 2018

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

Note 1: Each of the Non-executive director's compensation is C$100,000 per year and the directors' fees reflect the adjustment for the fair value of the Phantom Unit component.

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

Year ended December 31, 2017

	Directors' fees *C$*	Salaries, allowances and benefits in kind *C$*	Discretionary bonuses *C$*	Retirement scheme contributions *C$*	Sub-Total *C$*	Share-based payments *C$*	Total *C$*
Executive director							
Le Bo	—	430,001	275,000	2,564	707,565	—	707,565
Non-executive director							
Yuan Jing	—	—	—	—	—	—	—
Independent non-executive directors							
Richard Dale Orman	80,944	—	—	—	80,944	—	80,944
Bryan Daniel Pinney	80,944	—	—	—	80,944	—	80,944
Peter David Robertson	80,944	—	—	—	80,944	—	80,944
	242,832	430,001	275,000	2,564	950,397	—	950,397

21 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one of them was a director (Le Bo) during both the years ended December 31, 2018 and 2017, whose emolument is disclosed in Note 20. The aggregate of the emoluments in respect of the other four individuals are as follows:

	Year ended December 31,	
	2018	2017
	C$	*C$*
Salaries and other emoluments	**994,385**	884,110
Bonus	**74,000**	425,000
Retirement scheme contributions	**12,969**	10,256
	1,081,354	1,319,366

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

	Year ended December 31,	
	2018	2017
	Number of individuals	*Number of individuals*
Hong Kong dollars		
Nil–1,000,000	**—**	1
1,000,001–1,500,000	**4**	2
1,500,001–2,000,000	**—**	1
2,000,001–2,500,000	**—**	—
2,500,001–3,000,000	**—**	—
3,500,001–4,000,000	**—**	—
4,500,001–5,000,000	**—**	—

22 FINANCE EXPENSES

	Year ended December 31,	
	2018	2017
	C$	*C$*
Interest expense and financing fees	**2,696,790**	5,864,226
Amortization of debt issue costs	**169,422**	567,128
Loss/(gain) on foreign exchange	**(12,624)**	421,822
Accretion expense	**40,238**	30,955
Total finance expenses	**2,893,826**	6,884,131

23 INCOME TAXES

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

	Year ended December 31,	
	2018	2017
	C$	*C$*
Loss before income taxes	**(7,279,461)**	(11,636,792)
Combined Federal and Provincial tax rate	**27%**	27%
Expected tax benefit	**(1,965,454)**	(3,141,934)
Increase/(decrease) in taxes resulting from:		
— Non-deductible expenses	**2,246**	58,381
— Change in unrecognized deferred tax assets	**1,958,423**	3,083,803
— Change in enacted tax rate and others	**4,785**	(250)
Income tax expense	**—**	—

During the year ended December 31, 2018, the blended statutory tax rate was 27% (December 31, 2017: 27%).

The components of unrecognized deferred tax assets are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	C$	*C$*
Deferred tax assets have not been recognized in respect of the following temporary differences:		
PP&E and E&E assets	**26,807,270**	18,412,877
Decommissioning liabilities	**2,192,981**	2,172,148
Non-capital losses and other	**13,954,608**	12,425,390
Share issue costs	**4,554,047**	4,233,255
Total	**47,508,906**	37,243,670

At December 31, 2018, the Company has approximately C$145 million of tax deductions, which include loss carry forwards of approximately C$13.4 million that will begin to expire in 2037.

24 LOSS PER SHARE

The calculation of basic loss per share is based on the loss and total comprehensive loss of C$7,279,461 and C$11,636,792 for the years ended December 31, 2018 and 2017 respectively is calculated as follows:

	Year ended December 31,	
	2018	2017
	Number of shares	*Number of shares*
Weighted average number of common shares		
At the beginning of the year	**278,286,520**	208,706,520
Effect of new shares issued	**—**	56,617,150
At the end of the year	**278,286,520**	265,323,670
	C$	*C$*
Loss and total comprehensive loss for the year	**(7,279,461)**	(11,636,792)
Loss per share		
Basic and diluted	**(0.03)**	(0.04)

There were no dilutive potential common shares for the years ended December 31, 2018 and 2017 due to the loss, therefore diluted loss per share is the same as basic loss per share.

25 DIVIDEND

The Board did not approve the payment of a dividend for the years ended December 31, 2018 and 2017.

26 RELATED PARTY TRANSACTIONS

(a) Transactions with key personnel

Key management compensation for the year ended December 31, 2018 totaled C$1,589,949 (December 31, 2017: C$2,026,932).

During the year ended December 31, 2018, the Company incurred C$110,809 (year ended December 31, 2017: C$122,833) of directors' compensation per the Phantom Unit Plan. As at December 31, 2018, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$373,642 (December 31, 2017: C$262,833).

(b) Transactions with other related parties

There were no other related party transactions during the years ended December 31, 2018 and 2017.

27 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Overview

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

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from purchasers of the Company's crude oil and natural gas, and joint venture partners and the counterparties to financial derivative contracts. As at December 31, 2018, the Company's accounts receivables consisted of C$1,196,062 (December 31, 2017: C$1,813,992) due from purchasers of the Company's crude oil and natural gas and C$nil (December 31, 2017: C$nil) of other receivables.

Receivables from purchasers of the Company's crude oil and natural gas when outstanding are normally collected on the 25th day of the month following production. The carrying amount of accounts receivable and cash balances represents the maximum credit exposure. The Company has determined that no allowance for doubtful accounts was necessary as at December 31, 2018. The Company has also not written off any receivables during the year ended December 31, 2018 as accounts receivables were subsequently collected in full. There are no material financial assets that the Company considers past due and at risk of collection. As at December 31, 2018, C$1,196,062 (December 31, 2017: C$1,799,127) of the trade receivables were less than 90 days old.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company will attempt to match its payment cycle with collection of crude oil and natural gas revenues on the 25th of each month.

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

The following are the contractual maturities of financial liabilities:

	As at December 31, 2018			
	Total	**Less than 1 year**	**1–3 years**	**3–5 years**
	C$	***C$***	***C$***	***C$***
Accounts payable and accrued liabilities	**6,038,478**	**6,038,478**	**—**	**—**
Other liabilities	**4,225,734**	**—**	**4,225,734**	**—**
Long term debt	**23,063,945**	**—**	**4,164,243**	**18,899,702**
Total	**33,328,157**	**6,038,478**	**8,389,977**	**18,899,702**

	As at December 31, 2017			
	Total	Less than 1 year	1–3 years	3–5 years
	C$	*C$*	*C$*	*C$*
Accounts payable and accrued liabilities	8,230,602	8,230,602	—	—
Other liabilities	3,798,280	—	3,798,280	—
Long term debt	22,197,243	22,197,243	—	—
Total	34,226,125	30,427,845	3,798,280	—

(c) Market risk

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

Commodity price risk

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

The Company did not enter into any financial derivatives during the years ended December 31, 2018 and 2017.

Interest rate risk

As at December 31, 2018, the Company was exposed to changes in interest rates with respect to its bank loans. As at December 31, 2018, a one percent change in the prevailing interest rate for its bank loans would result in an estimated change to net loss of C$41,642 for the year ended December 31, 2018 (December 31, 2017: C$221,972), as a result of changes in interest expenses from variable rate borrowings under its Senior and SubDebt facilities.

Foreign currency risk

The Company manages foreign exchange risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or Hong Kong vendors as well as timing of transactions. The Company recognizes a foreign exchange gain/loss based on the revaluation of monetary items held in Hong Kong Dollars and the value changes with the fluctuation in the HKD/CAD exchange rates. As at December 31, 2018, the Company held HK$0.17 million (C$0.03 million base on HKD/CAD exchange rate at the same date). Changes in the HKD/CAD foreign exchange rate of less than 10% would not materially change the Company's Financial Statements.

(d) Capital management

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

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

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

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

The following represents the capital structure of the Company:

	As at December 31, 2018	As at December 31, 2017
	C$	*C$*
Long term debt	**23,063,945**	22,197,243
Other liabilities	**4,225,734**	3,798,280
Net working capital deficit *(Note 1)*	**1,645,799**	55,070
Net debt	**28,935,478**	26,050,593
Shareholders' equity	**68,060,664**	74,693,091
Total capital	**96,996,142**	100,743,684

Note 1: The bank loan in current liability was excluded in net working capital (surplus)/deficit calculation to avoid duplication.

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

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

Amount	**Expiry**
C$3,223,500	March 15, 2019
C$110,000	January 5, 2019
C$294,000	May 29, 2019
C$264,000	May 29, 2019

For the year ended December 31, 2018, the Company incurred fees totaling C$70,000 in relation to the PSG facility.

28 COMMITMENTS

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business.

	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
	C$	*C$*	*C$*	*C$*	*C$*
As at December 31, 2018					
Office premise lease	3,590,650	410,360	1,231,080	1,231,080	718,130
Lease of compressors	455,400	237,600	217,800	—	—
Transportation commitment	46,733,231	5,709,341	12,208,604	7,212,287	21,602,999
PSG facility	3,891,500	3,891,500	—	—	—
Total contractual obligations	54,670,781	10,248,801	13,657,484	8,443,367	22,321,129

Office premise lease:

— In June 2017, the Company entered into an office lease for a term starting January 2018 to February 2025. The rent payable is as follow:

- January 1, 2018, to December 31, 2018: rent payable of C$17,098 per month;
- January 1, 2019, to December 31, 2019: rent payable of C$34,197 per month; and
- January 1, 2020, to February 27, 2025: rent payable of C$51,295 per month.

Office premise lease costs include an estimate of the Company's share of operating costs for its office premises for the duration of the lease term.

Lease of compressors:

— The Company entered into a lease agreement for a compressor and the lease term is from December 1, 2017 to November 30, 2020 requiring monthly lease payments of C$19,800.

Transportation Commitment:

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

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

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

Under the terms of the New FT-R agreement for 102 MMcf/d, Persta's obligation commence December 2018 when NGTL completed and commissioned Persta's metering facility.

The Company also entered into the following fixed price physical commodity contracts to forward sell natural gas during the year ended December 31, 2018:

Commodity	**Term**	**Quantity**	**Price**
Natural gas	November 1, 2018 to March 31, 2019	1,000 GJ/day	C$2.14 per GJ
Natural gas	January 1, 2019 to December 31, 2019	6,900 GJ/day	C$2.08 per GJ
Natural gas	January 1, 2019 to March 31, 2019	1,000 GJ/day	C$2.23 per GJ

29 OTHER INCOME

On December 20, 2018, the Company monetized two in-the-money fixed price physical commodity contracts to forward sell natural gas in 2020 for C$752,000. The proceeds from the monetization were applied in full towards the New Facility.

30 SUBSEQUENT EVENTS

Subordinated debt agreement amendment

In March 2019, the Company and SubLender agreed to amend the SubDebt agreement. The amendment eliminated the TTM to EBITDA covenant for 2019, and implements a deferral of monthly interest payable for the SubDebt starting January 1, 2019 until the earlier of the repayment of the New Facility or January 1, 2020. The Company incurred a fee totalling C$1.0 million in relation to the amendment. The fee will be capitalized, increasing the SubDebt principal by C$1.0 million, and increasing the total SubDebt available, subject to SubLender approval, to C$26 million.

Performance services guarantee amendments

In March 2019, pursuant to its transportation commitments, the Company reduced its C$3.2 million L/C to C$1.39 million, guaranteed by the EDC on the same terms as the original L/C.

Private Placement

On March 25, 2019, the Company announced it entered into a subscription agreement with a subscriber to conditionally issue 23.6 million common shares at a price of HK$1.50 per share for gross proceeds of HK$35.4 million (approximately C$6 million). The Company intends to apply the net proceeds from the subscription for the expansion of its existing business, the development of new business, and general working capital. The subscription is scheduled to close on or before May 14, 2019.