Persta Resources Inc.

(incorporated under the laws of Alberta with limited liability)

(Stock code: 3395)

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2019

This announcement is issued pursuant to Rule 13.09 of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited and under Part XIVA of the Securities and Futures Ordinance (Cap. 571).

The Board of Directors of Persta Resources Inc. is pleased to announce its unaudited condensed interim financial results for the three months ended March 31, 2019.

The board (the "**Board**") of directors (the "**Directors**") of Persta Resources Inc. (the "**Company**") is pleased to announce the unaudited condensed interim financial results of the Company for the three months ended March 31, 2019 (the "**Q1 Results**") and its business updates. This announcement is issued by the Company pursuant to Rule 13.09 of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited and under Part XIVA of the Securities and Futures Ordinance (Cap. 571). The Board of Directors and its Audit and Risk Committee have reviewed the Q1 Results. Please see the attached announcement for further information.

By Order of the Board
Persta Resources Inc.
Le Bo
Chairman

Calgary, May 15, 2019
Hong Kong, May 16, 2019

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

Persta Resources Inc.
Announcement of Unaudited Results
for the three months ended March 31, 2019

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

MESSAGE TO SHAREHOLDERS

For the three month period ended March 31, 2019 the Company's total production volume decreased by 13,572 barrels of oil equivalent ("**Boe**") to 273,688 Boe compared to 283,867 Boe for the same period in 2018. The Company's natural gas production slightly decreased by 3% while natural gas revenues decreased by 4% over 2018. The natural gas market remains weakened in 2019, and in response the Company has strategically decreased production volumes to retain its reserves/resources for future recovery and long term growth. To fulfil its committed forward contracts for natural gas, the Company has taken advantage of the low price environment and purchased from the market, saving operating, transport and processing costs and arbitraging the price difference. Natural gas liquids ("**NGLs**") and condensate are the by-products from the production of natural gas, and their production volumes decreased commensurate with lower gas production for the three months ended March 31, 2019 compared to the same period in 2018. In the first quarter of 2019 the Company's crude oil production decreased 4% while crude oil revenues decreased 14% over the same period in 2018, reflecting the decline in the headline oil price over the same period.

FINANCIAL HIGHLIGHTS

(Expressed in Canadian dollars)

	Three months ended March 31,		
	2019	2018	Change
	C$	*C$*	*%*
	(unaudited)	(unaudited)	
Revenue from crude oil and natural gas sales	**5,065,311**	5,433,924	(7%)
Trading revenue from natural gas sales	**53,031**	94,582	(44%)
Operating Netback *(Note 1)*	**2,024,145**	3,131,792	(35%)
Adjusted EBITDA *(Note 2)*	**1,008,261**	1,809,422	(44%)
Loss and total comprehensive loss for the period attributable to owners of the Company	**(2,009,916)**	(544,835)	269%
Loss per share	**(0.00)**	(0.00)	—
Total production volume (Boe)	**273,688**	283,867	(6%)
Daily average production volume (Boe/d)	**3,041**	3,226	(6%)

Notes:

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

(2) Adjusted EBITDA is defined as earnings before deduction of finance expenses, income taxes, depletion and depreciation, impairment losses and write-offs, transaction costs and share-based compensation. Adjusted EBITDA is a non-IFRS financial measure. See "Non-IFRS Financial Measures" of this announcement for further information.

ASSETS AND LIABILITIES

(Expressed in Canadian dollars)

	As at March 31, 2019	As at December 31, 2018
	C$	*C$*
Total assets	**103,664,788**	103,581,802
Total liabilities	**(37,614,041)**	(35,521,138)
Total net assets	**66,050,747**	68,060,664
Share capital	**204,366,683**	204,366,683
Warrants	**647,034**	647,034
Accumulated deficit	**(138,962,970)**	(136,953,053)
Total equity	**66,050,747**	68,060,664

FUTURE PROSPECTS

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

On May 9, 2019, the Company announced it entered into a gas handling agreement ("**Gas Handling Agreement**") with Jixing Energy (Canada) Ltd. ("**Jixing**") whereby the Company will transport its natural gas and associated products through Jixing's Voyager gas gathering system and pipeline. The Gas Handling Agreement will allow for tie-in and production from the Company's Voyager area gas wells. The Company currently forecasts first production from Voyager under the Gas Handling Agreement in the first quarter of 2020. The Gas Handling Agreement will also allow for future expansion of the Company's natural gas exploration and production from the Voyager and area.

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 subscriber is a company incorporated under the laws of the British Virgin Islands, and is principally engaged in the investment of clean energy worldwide. On May 14, 2019 the Company announced the completion of the Subscription. It intends to apply the net proceeds from the Subscription to the expansion of its existing business, the development of new business, bank debt and general working capital. Refer to the Company's announcements dated March 25, 2019, the Company's clarification announcement dated March 25, 2019 and the completion announcement dated May 14, 2019 for additional information regarding the Subscription.

By Order of the Board
Persta Resources Inc.
Le Bo
Chairman

ABOUT PERSTA RESOURCES INC.

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

For further enquiries, please contact:

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Chairman
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FORWARD LOOKING INFORMATION

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

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

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

Persta Resources Inc.

CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2019 and 2018

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
As at March 31, 2019
(Expressed in Canadian dollars)
Unaudited

	Note	As at March 31, 2019 C$	As at December 31, 2018 C$
ASSETS			
Current assets			
Cash and cash equivalents	4	**751,796**	2,605,709
Accounts receivable	5	**1,810,652**	1,196,062
Prepaid expenses and deposits		**695,931**	796,744
		3,258,379	4,598,515
Non-current assets			
Exploration and evaluation assets	6	**43,592,734**	43,484,822
Property, plant and equipment	7	**53,920,659**	55,498,465
Right of use assets	8	**2,893,016**	—
		100,406,409	98,983,287
TOTAL ASSETS		**103,664,788**	103,581,802
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	9	**6,155,726**	6,038,478
Current portion of lease liabilities	8	**678,360**	—
Current portion of long term debt	10	**2,664,243**	—
Decommissioning liabilities	11	**205,836**	205,836
		9,704,165	6,244,314
Non-current liabilities			
Other liabilities	12	**3,944,039**	4,225,734
Lease liabilities	8	**2,277,976**	—
Long term debt	10	**19,600,714**	23,063,945
Decommissioning liabilities	11	**2,087,147**	1,987,145
		27,909,876	29,276,824
TOTAL LIABILITIES		**37,614,041**	35,521,138

	Note	As at March 31, 2019 C$	As at December 31, 2018 C$
SHAREHOLDERS' EQUITY			
Share capital	*13*	**204,366,683**	204,366,683
Warrants	*13*	**647,034**	647,034
Accumulated deficit		**(138,962,970)**	(136,953,053)
TOTAL EQUITY		**66,050,747**	68,060,664
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**103,664,788**	103,581,802
SUBSEQUENT EVENTS	*21*		

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

CONDENSED INTERIM STATEMENT OF LOSS AND OTHER COMPREHENSIVE LOSS

For the three months ended March 31, 2019
(Expressed in Canadian dollars)
Unaudited

		Three months ended March 31	
		2019	2018
	Note	***C$***	*C$*
Production revenue from crude oil and natural gas sales	*14*	**5,065,311**	5,433,924
Royalties		**(658,434)**	(839,578)
		4,406,877	4,594,346
Trading revenue from natural gas sales	*14*	**53,031**	94,582
Trading cost from natural gas purchases		**(82,538)**	(80,761)
		(29,507)	13,821
Net revenue		**4,377,370**	4,608,167
Operating costs		**(2,353,225)**	(1,476,375)
General and administrative costs ("**G&A cost**")		**(1,021,333)**	(1,328,470)
Depletion, depreciation and amortization		**(1,881,801)**	(1,942,734)
Direct write-off of exploration and evaluation assets	*6*	**(219,842)**	—
Loss from operations		**(1,098,831)**	(139,412)
Other income		**5,449**	6,100
Finance expenses	*15*	**(916,535)**	(411,523)
Loss before income taxes		**(2,009,917)**	(544,835)
Income taxes		**—**	—
Loss and comprehensive loss for the period attributable to owners of the Company		**(2,009,917)**	(544,835)
Loss per share			
Basic and diluted	*16*	**(0.01)**	(0.00)

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

CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three months ended March 31, 2019

(Expressed in Canadian dollars)

Unaudited

	Note	Share capital	Warrants	Accumulated deficit	Total equity
		C$	*C$*	*C$*	*C$*
Balance as at January 1, 2018	*13*	204,366,683	—	(129,673,592)	74,693,091
Loss for the period		—	—	(544,835)	(544,835)
Balance as at March 31, 2018		204,366,683	—	(130,218,427)	74,148,256
Balance as at January 1, 2019	*13*	204,366,683	647,034	(136,953,053)	68,060,664
Loss for the period		—	—	(2,009,917)	(2,009,917)
Balance as at March 31, 2019		204,366,683	647,034	(138,962,970)	66,050,747

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

CONDENSED INTERIM STATEMENT OF CASH FLOWS

For the three months ended March 31, 2019

(Expressed in Canadian dollars)

Unaudited

	Note	Three months ended March 31, 2019 C$	2018 C$
Operating activities			
Loss for the period		**(2,009,917)**	(544,835)
Adjustments for:			
Depletion, depreciation and amortization		**1,881,801**	1,942,734
Non-cash finance expenses		**694,376**	41,639
Unrealized foreign exchange (gain)/loss		**7,331**	(9,967)
Direct write-off exploration and evaluation assets		**219,842**	—
Funds from operations		**793,433**	1,429,571
Changes in non-cash working capital	*4*	**(653,099)**	903,816
Net cash generated from operating activities		**140,334**	2,333,387
Investing activities			
Expenditures on property, plant and equipment		**(83,998)**	(2,118)
Expenditures on exploration and evaluation assets		**(443,741)**	(2,358,092)
Investments		**—**	(3,333,500)
Net cash used in investing activities		**(527,739)**	(5,693,710)

	Three months ended March 31,	
	2019	2018
	C$	*C$*
Financing activities		
Repayment of bank loan	**(1,500,000)**	(1,200,000)
Changes in non cash working capital	**40,823**	—
Net cash generated from/(used in) financing activities	**(1,459,177)**	(1,200,000)
Effect of exchange rate fluctuation on cash and cash equivalents	**(7,331)**	9,967
Increase/(decrease) in cash and cash equivalents	**(1,853,913)**	(4,550,356)
Cash and cash equivalents at the beginning of the period	**2,605,709**	5,696,682
Cash and cash equivalents at the end of the period	**751,796**	1,146,326
Supplementary information:		
Interest paid	**95,580**	307,117

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

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three months ended March 31, 2019

(Expressed in Canadian dollars unless otherwise indicated)

Unaudited

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 trade 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

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

In preparing these unaudited condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended December 31, 2018. These unaudited condensed interim financial statements have been prepared following the same accounting policies as the annual audited financial statements for the year ended December 31, 2018 except as described in note 3 and should be read in conjunction with the annual audited financial statements and the notes thereto. The disclosures provided below are incremental to those included in the 2018 annual financial statements. These unaudited condensed interim financial statements were approved by the board of directors on May 15, 2019.

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

3 SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Standards

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Change in Accounting Policies

Leases

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

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

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

Financial Statement Impact

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

The nature of the Company's leasing activities includes equipment for the use of producing reserves from its oil and gas properties and office space. Refer to Note 8 for the values recognized upon implementation in each asset class.

4 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	As at March 31, 2019	As at December 31, 2018
	C$	*C$*
Deposits with banks and other financial institutions	**735,212**	2,600,832
Cash on hand	**16,584**	5,327
Cash and cash equivalents in the statement of financial position and statement of cash flows	**751,796**	2,605,709

(b) Supplementary cash flows information

	Three months ended March 31,	
	2019	2018
	C$	*C$*
Changes in non-cash working capital:		
Accounts receivable	**614,590**	1,216,857
Prepaid expenses and deposits	**(100,813)**	128,508
Accounts payable and accrued liabilities and other liabilities	**164,447**	1,056,199
Lease liabilities	**97,529**	—
	775,753	2,401,565
Add: Movement in non-cash working capital directly included in investing and financing activities	**(1,428,852)**	(1,497,748)
Movement in non-cash working capital directly included in operating activities	**(653,099)**	903,816

5 ACCOUNTS RECEIVABLE

	As at March 31, 2019	As at December 31, 2018
	C$	*C$*
Trade receivables	**1,810,652**	1,196,062

(a) Aging analysis of trade receivables

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

	As at March 31, 2019	As at December 31, 2018
	C$	*C$*
Within 1 month	**1,810,652**	1,196,062
1 to 3 months	**—**	—
Over 3 months	**—**	—
	1,810,652	1,196,062

Trade receivables are to be 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 impairment loss has been recognized in respect of trade receivables for the three months ended March 31, 2019 and 2018.

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.

6 EXPLORATION AND EVALUATION ASSETS

	As at March 31, 2019	As at December 31, 2018
	C$	*C$*
Balance, beginning of period	**43,484,822**	40,065,106
Additions	**327,754**	5,210,599
Write-offs	**(219,842)**	(1,790,883)
Balance, end of period	**43,592,734**	43,484,822

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. 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 three months ended March 31, 2019, the Company incurred E&E costs totaling C$327,754 (2018: C$5,210,599). Included in E&E additions are G&A costs of C$69,037 (2018: C$524,625) 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 demonstrable based on technical data available to support the possible recovery of reserves, 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.

For the three months ended March 31, 2019, there were write-offs of C$219,842 (2018: C$nil) of E&E assets attributable to land lease expiries. As at March 31, 2019, the Company has concluded that there were no triggers for impairment on its E&E assets.

7 PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depletion and depreciation	Net book value
	C$	*C$*	*C$*
Balance, January 1, 2018	152,627,692	(89,982,395)	62,645,297
Additions	203,679	—	203,679
Change in decommissioning obligations	(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
Balance, January 1, 2019	**150,849,686**	**(95,351,221)**	**55,498,465**
Additions	**77,331**	**—**	**77,331**
Change in decommissioning obligations	**65,815**	**—**	**65,815**
Impairment loss	**—**	**—**	**—**
Depletion and depreciation	**—**	**(1,720,952)**	**(1,720,952)**
Balance, March 31, 2019	**150,992,832**	**(97,072,173)**	**53,920,659**

Substantially all of PP&E consists of development and production assets. Included in PP&E additions for the three months ended March 31, 2019 are G&A costs of C$12,713 (2018: C$3,358) which were capitalized in accordance with the Company's accounting policies.

Depletion, depreciation and impairment charges

Depletion, depreciation and impairment of PP&E, and any reversal thereof, are recognized as separate line items in the condensed interim statement of loss and other comprehensive loss. The depletion calculation for the three months ended March 31, 2019 includes estimated future development costs of C$24,490,000 associated with the development of the Company's proved plus probable reserves.

For the three months ended March 31, 2019, there were no write-offs of PP&E attributable to land lease expiries and no indicators of impairment identified.

8 RIGHT OF USE ASSETS AND LEASES

(a) Right of use Assets

	Oil and Gas Production	Office Space	Total
	C$	*C$*	*C$*
Balance, January 1, 2019	—	—	—
Initial recognition	338,418	2,715,447	3,053,865
	338,418	2,715,447	3,053,865
Amortization	(50,763)	(110,086)	(160,849)
Balance, March 31, 2019	**287,655**	**2,605,361**	**2,893,016**

(b) Leases

	As at March 31, 2019
	C$
Statement of Financial Position	
Current lease liabilities	678,360
Long term lease liabilities	2,277,976
Total lease liabilities	**2,956,336**
Reconciliation to Operating Lease Commitments	
Operating leases included in commitments as at December 31, 2018	3,884,060
Discounting	(830,195)
Additional lease liability recognized due to adoption of IFRS 16 on January 1, 2019	**3,053,865**

	Three Months Ended March 31, 2019
	C$
Results of Operations	
Interest expense on lease liabilities	**64,461**
Cash Flow Summary	
Total cash flow used for leases	**161,990**

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at March 31, 2019 *C$*	As at December 31, 2018 *C$*
Trade payables	**578,624**	651,209
Accrued liabilities	**1,299,768**	1,432,903
Accrued compensation for independent non-executive directors per Phantom Unit Plan *(Note)*	**393,870**	373,642
Subtotal	**2,272,262**	3,125,088
Other payables	**3,883,464**	5,105,514
Total	**6,155,726**	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 defined in Note 19 of the audited financial statements for the year ended December 31, 2018.

As at March 31, 2019 there were C$3,883,464 of unpaid capital expenditures included in other payables (December 31, 2018: 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 March 31, 2019 and December 31, 2018, the aging analysis of trade payables and accrued liabilities is as follows:

	As at March 31, 2019 *C$*	As at December 31, 2018 *C$*
Within 1 month	**1,505,833**	1,534,348
1 to 3 months	**240,364**	402,865
Over 3 months but within 6 months	**132,195**	146,899
Total	**1,878,392**	2,084,112

10 LONG TERM DEBT

	As at March 31, 2019	As at December 31, 2018
	C$	*C$*
Bank loan	**2,664,243**	4,164,243
Subordinated debt	**21,000,000**	20,000,000
Accrued and unpaid interest on subordinated debt	**591,791**	—
Less: Deferred financing costs	**(1,991,077)**	(1,100,298)
Balance, end of period	**22,264,957**	23,063,945
Current	**2,664,243**	—
Long term	**19,600,714**	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**"). The maximum debt available under the New Facility was 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 2018. 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 deficit 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 March 31, 2019, 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 March 31, 2019.

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 12). 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.

On March 31, 2019, the Company and Lender amended the New Facility agreement ("**New Facility Amendment**") whereby the Company would pay down the New Facility through installments of at least C$500,000 per month until the facility is repaid. The New Facility Amendment further calls for the net proceeds of any equity offering to applied towards the New Facility in priority to any other obligations until the New Facility has been repaid in full. Pursuant to the New Facility Amendment, any amounts repaid cannot be re-borrowed and the New Facility is permanently reduced. As such the New Facility is classified as a current liability as at March 31, 2019. With the closing of the C$6 million private placement on May 14, 2019 (refer to Note 21), a portion of the net proceeds will be applied to pay down and terminate 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. In connection with the SubDebt, the Company sold 8 million share purchase warrants to the SubLender for C$750,000. The Company completed an initial draw of C$20.0 million from the SubDebt at closing.

The SubDebt is secured by a general security agreement over all present and after-acquired property of the Company subject to the fixed and floating first priority held by the Lender. Prior to December 2018, the SubDebt was subject to the following covenants: (a) maintenance at the end of each fiscal quarter a working capital ratio 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. The Company was in compliance with these covenants as at March 31, 2019.

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 12).

Under the terms of the First Amending Agreement, TTM EBITDA is defined as the annualized earnings before deduction of interest expenses/income, income taxes, depletion and depreciation, write-offs, unrealized hedging gains/losses and share-based compensation for the four most recent fiscal quarters.

In March 2019, the Company and SubLender further amended the SubDebt agreement (the "**Second Amending Agreement**"). The Second Amending Agreement eliminates the TTM EBITDA covenant for 2019, and implements a deferral of the monthly interest payable to the SubLender starting January 1, 2019 until the earlier of the repayment of the New Facility or January 1, 2020. The Company incurred a fee of C$1.0 million pursuant to the Second Amending Agreement. The fee was deemed to be incurred with the signing of the agreement, but capitalized as an increase of the SubDebt principal, such that the total amount owed under the SubDebt increased to C$21 million, and the total SubDebt available subject to SubLender approval increases to C$26 million. As such, no cash cost will be incurred in relation to the fee in 2019. Pursuant to the Second Amending Agreement, subject to approval by the SubLender, the Company has an additional C$5.0 million of SubDebt available. In total, 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 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.

11 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 March 31, 2019, 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 March 31, 2019, an average risk free rate of 2.04% (December 31, 2018: 2.04%) and an inflation rate of 2% (December 31, 2018: 2%) were used to calculate the decommissioning obligations.

The following reconciles the Company's decommissioning liabilities:

	As at March 31, 2019	As at December 31, 2018
	C$	*C$*
Balance, beginning of period	**2,192,981**	2,172,148
Change in estimate	**65,815**	(19,405)
Accretion expense	**34,187**	40,238
Balance, end of period	**2,292,983**	2,192,981
Current	**205,836**	205,836
Long-term	**2,087,147**	1,987,145

12 OTHER LIABILITIES

	As at March 31, 2019 C$	As at December 31, 2018 C$
Other liabilities	**3,944,039**	4,225,734

Other liabilities relate to costs incurred pursuant to the Master Turnkey Drilling and Completion Contract (the "**Contract**"). For additional information on the Contract refer to the Company's audited financial statements for the year ended December 31, 2018.

As at March 31, 2019, the Company has completed one well per the Contract with a total amount outstanding of C$7,657,269. In accordance with the payment terms, the Company has accrued C$3,883,464 in current liabilities with the balance as other liabilities.

13 SHARE CAPITAL

(a) Authorized:

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

(b) Issued:

	Common Shares Number	Amount C$
As at January 1, 2018	208,706,520	169,247,367
Shares issued for cash	69,580,000	38,131,133
Share issue costs	—	(3,011,817)
As at December 31, 2018 and March 31, 2019	**278,286,520**	**204,366,683**

There were no share capital transactions during the three months ended March 31, 2019.

(c) Warrants:

On August 13, 2018, the Company issued 8.0 million warrants to the SubLender for a consideration of C$750,000. 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 March 31, 2019 C$102,966 in costs were incurred for the sale of the warrants.

14 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 three months ended March 31, 2019 and 2018 is as follows:

	Three months ended March 31,	
	2019	2018
	C$	*C$*
Production revenue from natural gas, natural gas liquids and condensate sales	**4,593,253**	4,886,845
Production revenue from crude oil sales	**472,058**	547,079
	5,065,311	5,433,924
Trading revenue from natural gas sales	**53,031**	94,582

15 FINANCE EXPENSES

	Three months ended March 31,	
	2019	2018
	C$	*C$*
Interest expense and financing costs	**813,950**	369,884
Amortization of debt issuance costs	**68,398**	—
Accretion expense	**34,187**	41,639
Total finance expenses	**916,535**	411,523

16 LOSS PER SHARE

	Three months ended March 31,	
	2019	2018
	C$	*C$*
Weighted average number of common shares		
At the beginning and the end of the period	**278,286,520**	278,286,520
	C$	*C$*
Loss and total comprehensive loss for the period	**(2,009,917)**	(544,835)
Loss per share		
Basic and diluted	**(0.01)**	(0.00)

There were no dilutive potential common shares for the three months ended March 31, 2019 and 2018 due to the loss, therefore diluted loss per share is the same as basic loss per share.

17 DIVIDEND

The Board did not approve the payment of a dividend for the three months ended March 31, 2019 and 2018.

18 RELATED PARTY TRANSACTIONS

(a) Transactions with key personnel

Key management compensation for the three months ended March 31, 2019 totaled C$548,266 (2018: C$500,255).

During the three months ended March 31, 2019 the Company incurred C$20,228 (2018: C$110,809) of directors' compensation per the Phantom Unit Plan. As at March 31, 2019 the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$393,870 (December 31, 2018: C$373,642).

(b) Transactions with other related parties

There were no related party transactions during the three months ended March 31, 2019 and 2018.

19 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 March 31, 2019 the Company's accounts receivables consisted of C$1,810,652 (December 31, 2018: C$1,196,062) due from purchasers of the Company's crude oil and natural gas and C$nil (December 31, 2018: 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 March 31, 2019. The Company has also not written off any receivables during the three months ended March 31, 2019 as accounts receivables were subsequently collected in full. There are no material financial assets that the Company considers past due and at risk of collection. As at March 31, 2019 C$1,810,652 (December 31, 2018: C$1,196,062) 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 March 31, 2019		
	Total	**Less than 1 year**	**1-3 years**	**4+ years**
	C$	*C$*	*C$*	*C$*
Accounts payable and accrued liabilities	**6,155,726**	**6,155,726**	**—**	**—**
Other liabilities	**3,944,039**	**—**	**3,944,039**	**—**
Lease liabilities	**2,956,336**	**678,360**	**555,183**	**1,722,793**
Current and long term debt	**22,264,957**	**2,664,243**	**—**	**19,600,714**
Total	**35,321,058**	**9,498,329**	**4,499,222**	**21,323,507**

As at March 31, 2019, the Company has a working capital deficiency of C$6.45 million and incurred a loss for the three months ended March 31, 2019 of C$2.0 million. As at March 31, 2019 the Company had a C$2.6 million bank loan ("**New Facility**") and C$21 million of subordinated debt ("**SubDebt**") outstanding (refer to Note 10).

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.

On March 31, 2019, the Company and Lender amended the New Facility agreement whereby the Company would pay down the New Facility through installments of at least C$500,000 per month until the facility is repaid. The amendment further calls for the net proceeds of any equity offering to applied towards the New Facility in priority to any other obligations until the New Facility has been repaid in full. Pursuant to the New Facility Amendment, any amounts repaid cannot be reborrowed and the New Facility is permanently reduced. As such the New Facility is classified as a current liability as at March 31, 2019. With the closing of the C$6 million private placement on May 14, 2019 (refer to Note 21), a portion of the net proceeds will be applied to pay down and terminate the New Facility.

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. There can be no guarantees that the Company will be able to access any additional funds pursuant to the amended SubDebt agreement. Management believes that funds remaining from the private placement after the New Facility is repaid, and cash generated from its operations will enable it to meet its obligations as they become due.

(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 three months ended March 31, 2019 and 2018.

Interest rate risk

As at March 31, 2019, the Company was exposed to changes in interest rates with respect to its bank loans. A one percent change in the prevailing interest rate for its bank loans would result in an estimated change to net loss of C$26,642 for the three months ended March 31, 2019 (2018: C$41,642), 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 March 31, 2019 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 March 31, 2019	As at December 31, 2018
	C$	*C$*
Long term debt	**19,600,714**	23,063,945
Other liabilities	**3,944,039**	4,225,734
Long term lease liabilities	**2,277,976**	—
Net working capital deficit	**6,445,786**	1,645,799
Net debt	**32,268,515**	28,935,478
Shareholders' equity	**66,050,747**	68,060,664
Total capital	**98,319,262**	96,996,142

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

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

Amount	**Expiry**
C$1,390,000	March 15, 2020
C$110,000	January 5, 2020

For the three months ended March 31, 2019, the Company incurred fees totaling C$27,840 in relation to the PSG facility.

20 COMMITMENTS

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

	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
	C$	*C$*	*C$*	*C$*	*C$*
Transportation commitment	45,305,895	5,947,230	13,121,010	12,359,083	13,878,573
PSG facility	1,500,000	1,500,000	—	—	—
Total contractual obligations	46,805,895	7,447,230	13,121,010	12,359,083	13,878,573

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.

As at March 31, 2019, the Company has entered into the following fixed price physical commodity contract to forward sell natural gas:

Commodity	Term	Quantity	Price
Natural gas	January 1, 2019 to December 31, 2019	6,900 GJ/day	C$2.08 per GJ

21 SUBSEQUENT EVENTS

C$6 million 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 "**Subscription**"). On May 14, 2019 the Company announced the completion of the Subscription. It intends to apply the net proceeds from the Subscription to the expansion of its existing business, the development of new business, bank debt, and general working capital.

Gas Handling Agreement

On May 9, 2019, the Company announced it entered into a gas handling agreement ("**Gas Handling Agreement**") with Jixing Energy (Canada) Ltd. ("**Jixing**") whereby the Company will transport its natural gas and associated products through Jixing's Voyager gas gathering system and pipeline. The Gas Handling Agreement will allow for tie-in and production from the Company's Voyager area gas wells. The Company currently forecasts first production from Voyager under the Gas Handling Agreement in the first quarter of 2020.

Persta Resources Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with the Company's unaudited condensed interim financial statements and notes thereto for the three months ended March 31, 2019 and the audited annual financial statements and MD&A for the year ended December 31, 2018. All amounts and tabular amounts in this MD&A are stated in thousands of Canadian dollars unless indicated otherwise.

FORWARD LOOKING INFORMATION

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

OVERVIEW

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

Persta commenced operations on March 11, 2005 with the objective of building a successful Canadian natural gas and crude oil exploration, development and production company with a long-term business strategy. The Company acquired its first 6,400 net acres of land in an area in the WCSB in January 2007 known as the Alberta Foothills and drilled and commercially produced liquids-rich natural gas from the Company's first deep well in this area in December 2008. Since then, the Company's natural gas and crude oil production rate has organically grown with average sales of 3,041 Boe/d for the three months ended March 31, 2019.

Presently, the Company has four core areas of operations:

- Alberta Foothills, which includes natural gas properties in the five areas of Basing, Voyager, Kaydee, Columbia and Stolberg. Basing and Voyager are partially developed whilst Kaydee, Columbia and Stolberg are undeveloped;

- Deep Basin Devonian, which includes undeveloped natural gas properties in Hanlan-Peco in West Alberta;

- Peace River, which includes light oil properties in the Dawson area which is partially developed; and

- Progress Montney, an underdeveloped natural gas and oil property in northern Alberta.

The Company's long-term business strategy is to increase shareholder value by continuing to exploit and develop its oil and natural gas asset base in the four core exploration and production areas to increase its reserves, production and cash flows. The Company believes that it has a number of key strengths that will help the Company to execute its long-term business strategies, which include:

- economics and quality of resource base;
- size of resources within the Company's acreage land position;
- location of resources and market access;
- holding sole operating control and land ownership; and
- an experienced management and technical team with a strong industry track record.

FUTURE PROSPECTS

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

On May 9, 2019, the Company announced it entered into a gas handling agreement ("**Gas Handling Agreement**") with Jixing Energy (Canada) Ltd. ("**Jixing**") whereby the Company will transport its natural gas and associated products through Jixing's Voyager gas gathering system and pipeline. The Gas Handling Agreement will allow for tie-in and production from the Company's Voyager area gas wells. The Company currently forecasts first production from Voyager under the Gas Handling Agreement in the first quarter of 2020. The Gas Handling Agreement will also allow for future expansion of the Company's natural gas exploration and production from the Voyager and area.

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 subscriber is a company incorporated under the laws of the British Virgin Islands, and is principally engaged in the investment of clean energy worldwide. On May 14, 2019 the Company announced the completion of the Subscription. It intends to apply the net proceeds from the Subscription to the expansion of its existing business, the development of new business, bank debt and general working capital. Refer to the Company's announcements dated March 25, 2019, the Company's clarification announcement dated March 25, 2019 and the completion announcement dated May 14, 2019 for additional information regarding the Subscription.

Selected Quarterly Information

	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
AVERAGE DAILY PRODUCTION								
Natural gas (Mcf)	**17,023**	10,786	9,236	11,090	17,987	13,708	12,196	17,266
Crude oil (Bbls)	**90**	64	75	69	94	73	77	46
NGLs and Condensate (Bbls)	**114**	95	66	72	133	131	129	148
Oil Equivalent (Boe)	**3,041**	1,957	1,680	1,989	3,225	2,490	2,239	3,072
AVERAGE DAILY TRADING								
Natural gas (Mcf)	**214**	1,177	1,207	1,765	418	2,009	2,485	—
FINANCIAL ($'000)								
Production revenue	**5,065**	3,286	3,164	3,480	5,434	4,772	4,501	5,393
Royalties	**(658)**	(266)	(319)	261	(840)	(591)	(396)	(1,040)
Trading revenue	**53**	256	293	426	95	562	679	—
Trading cost	**(83)**	(82)	(102)	(145)	(81)	(262)	(237)	—
Operating costs	**(2,353)**	(1,581)	(1,096)	(1,200)	(1,476)	(1,272)	(1,201)	(1,534)
Operating netback *(Note 1)*	**2,024**	1,614	1,940	2,823	3,132	3,209	3,345	2,819
Net loss	**(2,010)**	(5,322)	(1,071)	(342)	(545)	(2,859)	(1,579)	(3,586)
Net working capital *(Note 2)*	**(6,446)**	(1,646)	3,638	4,033	(2,639)	(22,252)	660	15,044
Total assets	**103,665**	103,582	111,604	113,438	110,406	111,091	115,238	110,188
Capital expenditures	**282**	872	18	201	(21,943)	507	3,728	1,743
(LOSS)/PROFIT PER SHARE								
Per basic share	**(0.01)**	(0.02)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)
Per diluted share	**(0.01)**	(0.02)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)

Notes:

1 Non-IFRS measure — see discussion under the heading "Non-IFRS Financial Measures".

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

RESULTS OF OPERATIONS

Project Development and Production Volume

There are three phases in the Company's operations, comprising the exploration phase, the development phase and the production phase. During the exploration phase, the Company conducts geological and geophysical studies combined with seismic mapping to propose drilling locations which might generate natural gas and crude oil prospects on the undeveloped land the Company has acquired.

During the development and production phases, the Company's production volumes largely depend on its drilling and production schedule and access to transport and processing infrastructure to refine and deliver the Company's products to a sales point. For the three months ended March 31, 2019 and 2018, the Company produced gas from 5 wells and crude oil from 3 wells.

Pricing forecasts directly affect the production volume of the Company. Producing wells may be shut in due to economic limit considerations and the production plan may be delayed or scaled down should there be unfavorable prices.

The natural gas market remains weakened in 2019, and in response the Company has strategically decreased production volumes to retain its reserves/resources for future recovery and long term growth. To fulfil its committed forward contracts for natural gas, the Company has taken advantage of the low price environment and purchased from the market, saving operating, transport and processing costs and arbitraging the price difference. Natural gas liquids ("**NGLs**") and condensate are the by-products from the production of natural gas, and their production volumes decreased commensurate with lower gas production for the three months ended March 31, 2019 compared to the same period in 2018.

The following table shows the number of producing wells and production volume for the Company's natural gas, crude oil, NGLs and condensate for the three and three months ended March 31, 2019 and 2018:

	Three months ended March 31,		
	2019	2018	Change %
Natural gas			
Producing wells (number of wells)	**5**	5	0%
Production volume (Mcf)	**1,532,083**	1,580,757	(3%)
Natural gas			
Trading volume (Mcf)	**19,253**	38,645	(50%)
Crude oil			
Producing wells (number of wells)	**3**	3	0%
Production volume (Bbl)	**8,809**	8,437	(4%)
NGLs (by-product of natural gas)			
Producing wells (number of wells)	**5**	5	0%
Production volume (Bbl)	**3,722**	3,731	0%
Condensate (by-product of natural gas)			
Producing wells (number of wells)	**5**	5	0%
Production volume (Bbl)	**6,531**	8,239	(21%)
Total			
Producing wells (number of wells)	**8**	8	0%
Production volume (Boe)	**273,688**	283,867	(3%)
Trading volume (Boe)	**3,209**	6,441	(50%)

Average Sales Price

The Company mainly sells its natural gas, natural gas related products (NGLs and condensate) and crude oil products to gas and oil trading companies or companies involved in gas and oil trading. The selling price of its natural gas benchmarks to Canadian Gas Price Reporter, which is also known as the Alberta Energy Company natural gas price ("**AECO natural gas price**"), while the natural gas related products (NGLs and condensate) and crude oil products benchmark to the Edmonton light, sweet crude oil commodity price. During the three months ended March 31, 2019, the Company also had in place sales agreements to forward sell its natural gas at a specified price and volume. The value of these sales accounted for approximately 50% of the Company's total production revenue from crude oil and natural gas sales for the three months ended March 31, 2019.

During the three months ended March 31, 2019, the Company has periodically taken advantage of the low price environment and purchased natural gas from the market to fulfill the committed forward contracts for natural gas, saving operating costs and arbitraging from the price difference.

The following table shows the average market prices and average sales prices for the Company's natural gas, crude oil, NGLs and condensate and the average realized price, average trading sales price and average forward sales price for the Company's natural gas for the three months ended March 31, 2019 and 2018. The Company sells its natural gas benchmarked to the AECO natural gas price, crude oil benchmarked to the Edmonton light, sweet crude oil settlement price, and its NGLs and condensate benchmarked to the average Alberta natural gas liquids price. The Company also enters into forward sales agreements to sell its natural gas over a time period at a specified price and volume. Since the Company uses weighted average to calculate the average sales prices, the volatilities in price and volume sold each day may cause the average sales price of crude oil, NGLs and condensate and the average realized price of natural gas to be either lower or higher than the average market price for the same periods in 2019 and 2018.

	Three months ended March 31		
	2019	2018	Change
	C$	*C$*	*%*
Natural gas			
Average market price (C$ per Mcf)*(Note 1)*	**1.74**	2.34	(26%)
Average realized price (C$ per Mcf)*(Note 2)*	**2.88**	2.41	20%
Average forward sales price (C$ per Mcf)*(Note 3)*	**2.33**	2.68	(13%)
Average trading sales price (C$ per Mcf)*(Note 4)*	**3.09**	2.39	29%
Average sales price (C$ per Mcf)*(Note 5)*	**2.63**	2.58	2%
Crude oil			
Average market price (C$ per Bbl)*(Note 6)*	**70.92**	71.92	0%
Average sales price (C$ per Bbl)*(Note 5)*	**58.36**	64.84	(10%)

	Three months ended March 31		
	2019	2018	Change
	C$	*C$*	*%*
NGLs			
Average market price (C$ per Bbl)*(Note 7)*	**29.94**	40.70	(26%)
Average sales price (C$ per Bbl)*(Note 5)*	**35.21**	33.49	5%
Condensate			
Average market price (C$ per Bbl)*(Note 7)*	**80.23**	79.57	0%
Average sales price (C$ per Bbl)*(Note 5)*	**66.93**	75.45	(11%)

Notes:

(1) The average market price was the AECO same day spot price averaged over the period.

(2) The average realized price represents the average price of natural gas sales excluding the sales derived from forward sales and trading sales.

(3) The average forward sales price was the price agreed in the forward sales agreements to sell the Company's natural gas at a specified price and volume.

(4) The average trading sales price was the weighted average price of sales for trading business.

(5) The average sales price was the weighted average price calculated by the Company.

(6) The average market price was the average Edmonton light, sweet crude oil settlement price over the period.

(7) The average market price was the average Alberta natural gas liquids price over the period.

Natural Gas

The Company's average sales price of natural gas consists of two components: the weighted average of the realized price and the average forward sales price of natural gas. The average realized price represents the average price of natural gas sales excluding the sales derived from forward sales.

For the three months ended March 31, 2019, the Company received an average gas sales price of C$2.63/Mcf (2018: C$2.58/Mcf). Year over year declines in the market and forward sales prices were offset by the higher price achieved through trading gas in the first quarter of 2019.

While the gas prices in Western Canada remain depressed, as of the date of this MD&A, the strip forecast for gas starting winter 2019/2020 and throughout 2020 indicates the market is rebalancing, with prices above current levels.

Crude oil

For the three months ended March 31, 2019, the average market price for oil was C$70.92/Bbl, effectively unchanged from the comparative period of C$71.92/Bbl. During the first quarter of 2019, the Company realized a price of C$58.36/Bbl (2018: C$64.84/Bbl). The decrease in realizations over the prior year is consistent with the widening of the Canadian oil differential over the same period, as restricted market access for crude oil has depressed prices in the Western Canadian market.

NGLs

For the three months ended March 31, 2019, the Company realized a price of C$35.21/Bbl for its NGL sales, consistent with the prior year (2018: C$33.49/Bbl), despite a 26% decrease in the market price from C$40.70/Bbl to C$29.94/Bbl over the same period. The NGL market has been volatile throughout the first quarter of 2019 and the Company was able to exploit windows of high prices throughout the period.

Condensate

For the three months ended March 31, 2019, the Company realized a price of C$66.93/Bbl for its condensate sales, a decrease of 11% from the comparative period (2018: C$75.45/Bbl). The reference price of C$80.23/Bbl was effectively unchanged year over year (2018: C$79.57). Along with the NGL market, condensate prices have been volatile during the first quarter of 2019 and the Company's sales corresponded to periods of weakness.

Revenue

The following table shows the breakdown of the Company's production and trading revenue by product for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,		
	2019	2018	Change
	C$'000	*C$'000*	*%*
Natural gas	**4,078**	4,235	(4%)
Crude oil	**472**	547	(14%)
NGLs	**131**	125	5%
Condensate	**437**	622	(30%)
Total revenue	**5,118**	5,529	(7%)

Sales of Natural Gas

The following table shows the sales volume and average sales price of the Company's natural gas for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,		
	2019	2018	Change %
Sales volume (Mcf)	**1,551,336**	1,619,402	(4%)
Realized sales volume	**810,311**	571,411	42%
Forward sales volume	**721,772**	1,009,346	(28%)
Trading sales volume	**19,253**	38,645	(50%)
Average sales price (C$/Mcf)	**2.63**	2.58	2%
Average Realized sales price	**2.88**	2.41	20%
Average Forward sales price	**2.33**	2.68	(13%)
Average Trading sales price	**3.09**	2.39	29%

Natural gas revenue for the first quarter of 2019 totaled C$4.1 million, a 4% reduction over the prior year (2018: C$4.2 million). Gas sales volumes for the three months ended March 31, 2019 totaled 1.55MMcf, a 4% decrease over the same period in 2018, as reductions in forward sales and trading volumes were offset by increased spot market production. The Company's realized sales price was consistent year over year, while decreases in the average forward sale price was offset by increases in the average trading price over the same period.

Sales of Crude Oil

The following table shows the sales volume and average sales price of the Company's crude oil for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,		
	2019	2018	Change %
Sales volume (Bbl)	**8,089**	8,437	(4%)
Average sales price (C$/Bbl)	**58.36**	64.84	(10%)

Crude oil revenues for the first quarter of 2019 totaled C$0.47 million, a 14% decrease over the prior year (2018: C$0.51 million), reflecting decreases in both sales volumes and realized pricing over the same period.

Sales of NGLs

The following table shows the sales volume and average sales price of the Company's NGLs for the three months ended March 31, 2019 and 2018:

	Three months ended March 31		
	2019	2018	Change
			%
Sales volume (Bbl)	**3,722**	3,731	0%
Average sales price (C$/Bbl)	**35.21**	33.49	5%

NGL revenues for the first quarter of 2019 totaled C$0.13 million, a 5% increase over the prior year (2018: C$0.1 million), reflecting higher realized pricing on equivalent production year over year.

Sales of Condensate

The following table shows the sales volume and average sales price of the Company's condensate for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,		
	2019	2018	Change
			%
Sales volume (Bbl)	**6,531**	8,239	(21%)
Average sales price (C$/Bbl)	**66.93**	75.45	(11%)

Condensate revenue for the first quarter of 2019 totaled C$0.4 million, a 30% decrease over the prior year (2018: C$0.6 million). The decrease in the current period is attributable to both lower production and pricing over the prior year.

Royalties

The following table shows the breakdown of the Company's royalties by product type for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,		
	2019	2018	Change
	C$'000	*C$'000*	%
Natural gas, NGLs and condensate	**540**	671	(20%)
Crude oil	**118**	169	(30%)
Total royalties	**658**	840	(22%)

For the three months ended March 31, 2019 the effective average royalty rate (total royalties divided by total revenues) was 13%, compared to 15% for the same period in 2018. The change in the effective average royalty rate was primarily due to changes in market prices and oil and natural gas production. In Alberta, royalties are set by a sliding scale formula containing separate elements that account for market price and well production. Royalty rates will fluctuate to reflect change in production rates and market prices.

During the three months ended March 31, 2019, the Company's royalty rate for natural gas ranged from 5% to 18%, the royalty rate for NGLs (propane and butane) was 30%, the royalty rate for condensate was 40%, and the royalty rate for crude oil ranged from 5% to 20%. The Company's royalty rate was also influenced by the Modernizing Alberta's Royalty Framework under which a company will pay a flat royalty of 5% on a well's early production until the well's total revenue, from all hydrocarbon products, equals the drilling and completion cost allowance.

Operating Costs

The following table shows the breakdown of the Company's operating costs by product for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,		
	2019	2018	Change
	C$'000	*C$'000*	*%*
Total operating costs			
Natural gas, NGLs and condensate	**2,228**	1,340	66%
Crude oil	**125**	136	(9%)
Total	**2,353**	1,476	59%
Average operating costs	***C$***	*C$*	*%*
Natural gas, NGLs and condensate (Per Boe)	**8.39**	4.87	72%
Crude oil (Per Bbl)	**15.39**	16.14	(5%)
Average Cost (Per Boe)	**8.60**	5.20	65%

For the three months ended March 31, 2019 operating costs increased to C$2.4 million, a 59% increase over the same period in 2018. The increase in the current year is attributable to the fixed FT-Volume obligations which commenced in December 2018 (refer to Note 27 in the audited financial statements for the year ended December 31, 2018 for additional information).

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

General and Administrative Costs

The following table shows the breakdown of the general and administrative costs for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,		
	2019	2018	Change
	C$'000	*C$'000*	*%*
Staff costs	**548**	500	10%
Accounting, legal and consulting fees	**259**	608	(57%)
Office rent	**34**	60	(44%)
Other	**180**	160	13%
General and administrative costs	**1,021**	1,328	(23%)
Capitalized staff costs	**82**	174	(53%)

For the three months ended March 31, 2019 and 2018, general and administrative costs totaled C$1.0 million, a 23% decrease over the same period in 2018, reflecting significantly lower accounting, legal and consulting fees. 2018 includes legal and advisory fees incurred with the subordinated debt and restructuring of the Company's debt facilities, along with advisory costs for corporate and assets acquisitions the Company was evaluating at the time. Other costs include office supplies, insurance and travel and accommodation. Capitalized G&A costs are lower than the comparative period as qualifying expenditures in respect of geological and geophysical activities were lower in the first quarter of 2019.

Finance Expenses

The following table shows the breakdown of the finance expenses for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,		
	2019	2018	Change
	C$'000	*C$'000*	*%*
Interest expense and financing costs	**815**	370	120%
Amortization of debt issuance costs	**68**	—	—
Accretion expense	**34**	42	(18%)
Total finance expenses	**917**	412	(36%)

For the three months ended March 31, 2019, interest and financing costs were incurred from the Company's bank debt, subordinated debt and capitalized leases. The increase over the prior period is primarily attributable to the C$20 million subordinated debt which carries interest at 12% per annum. This facility was not in place in the prior year. Interest costs were incurred in respect of capitalized leases under IFRS 16, which came into effect January 1, 2019. The Company has adopted the standard using the modified retrospective approach which does not require restatement of prior period financial information (refer to Note 3 to the unaudited condensed interim financial statements for the three months ended March 31, 2019 for additional information).

Amortization of debt issuance costs includes legal fees, commissions and commitment fees which were incurred from the closing of the subordinated debt facility in May 2018. These costs are capitalized against the debt and amortized over the term.

Depletion, Depreciation and Amortization

The following table shows the breakdown of the depletion and depreciation expenses for the three months ended March 31, 2019 and 2018:

	Three months ended March 31,		
	2019	2018	Change
	C$'000	*C$'000*	*%*
Amortization of right of use assets	**161**	—	100%
Depletion	**1,713**	1,934	(10%)
Depreciation	**8**	9	(12%)
Total depletion, depreciation and amortization	**1,882**	1,943	(3%)
	C$	*C$*	*%*
Average depletion, depreciation and amortization (Per Boe)	**6.88**	6.84	1%

Depletion is calculated using the depletion base and the depletion ratio. Depletion base is based upon the net book value of developed and producing assets at the end of the period and future development costs, and the depletion ratio is calculated based upon the production volume for the period divided by the total proved and probable reserves at the beginning of the period.

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

Amortization of right of use assets were incurred in respect of capitalized leases under IFRS 16, which came into effect January 1, 2019. The Company has adopted the standard using the modified retrospective approach which does not require restatement of prior period financial information (refer to Note 3 to the unaudited condensed interim financial statements for the three months ended March 31, 2019 for additional information).

Share-based Compensation

There was no share-based compensation incurred during the three months ended March 31, 2019 and 2018.

Financial Instruments

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

The Company did not enter into any financial derivatives contracts for the three months ended March 31, 2019.

For the three months ended March 31, the Company experienced a foreign exchange loss of C$7,331 compared to foreign exchange gain of C$9,967 for the same period in 2018. These foreign exchange gains and losses are related to the revaluation of monetary items held in Hong Kong Dollars and the value changes with the fluctuation in the Hong Kong Dollars/Canadian Dollars exchange rates. The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they relate. The Company has not hedged its exposure to currency fluctuation and the Company currently does not have a foreign currency hedging policy, however, management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Net Loss and Comprehensive Loss

Net loss and comprehensive loss for the three months ended March 31, 2019 increased to C$2.01 million, compared to C$0.5 million in 2018. The increase was attributable to higher operating and finance costs in the current period.

Dividend

The Board did not approve the payment of an interim dividend for the three months ended March 31, 2019 and 2018.

LIQUIDITY AND CAPITAL RESOURCES

Capital management

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying crude oil and natural gas assets. The Company considers its capital structure to include shareholders' equity, bank 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.

Capital Structure of the Company

The Company's capital structure is as follows:

	As at March 31, 2019 *C$'000*	As at December 31, 2018 *C$'000*
Long term debt[(1)]	**19,601**	23,064
Other liabilities	**3,944**	4,226
Long term lease liabilities	**2,278**	—
Net working capital deficit[(2)]	**6,446**	1,646
Net debt	**32,269**	28,935
Shareholders' equity	**66,051**	68,081
Total capital	**98,319**	96,996
Net debt as a percentage of total capital (%)	**33%**	30

Notes:

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

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

Capital Resources

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

On 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 subscriber is a company incorporated under the laws of the British Virgin Islands, and is principally engaged in the investment of clean energy worldwide. On May 14, 2019 the Company announced the completion of the Subscription. It intends to apply the net proceeds from the Subscription to the expansion of its existing business, the development of new business, bank debt, and general working capital.

The Company has developed a range of planned expenditures for the remainder of 2019 which will be funded from free cashflow, working capital, remaining debt capacity, the Master Turnkey Drilling and Completion Contract and the Subscription. Management believes that its forecast cash flows, working capital, remaining debt capacity and proceeds from the Subscription are sufficient to cover the next 12 months of the Company's operations, including capital expenditures and current debt repayments.

Commitments

Commitments and contingencies exist under various agreements and operations in the normal course of the Company's business. For a detailed discussion regarding the Company's commitments and contingencies, please refer to the Company's unaudited condensed interim financial statements and notes thereto for the three months ended March 31, 2019 and to the audited financial statements and notes thereto for the year ended December 31, 2018. The following table summarizes the timing of the Company's commitments:

	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
	C$	*C$*	*C$*	*C$*	*C$*
Transportation commitment	45,305,895	5,947,230	13,121,010	12,359,083	13,878,573
PSG facility	1,500,000	1,500,000	—	—	—
Total contractual obligations	46,805,895	7,447,230	13,121,010	12,359,083	13,878,573

RELATED PARTY TRANSACTIONS

(a) Transactions with key personnel

Key management compensation for the three months ended March 31, 2019 totaled C$548,266 (2018: C$500,255).

During the three months ended March 31, 2019, the Company incurred C$20,228 (2018: C$110,809) of directors' compensation per the Phantom Unit Plan. As at March 31, 2019, the accrued compensation for independent non-executive directors per the Phantom Unit Plan was C$393,870 (December 31, 2018: C$373,642).

(b) Transactions with other related parties

There were no other related party transactions during the three months ended March 31, 2019.

OFF-BALANCE SHEET TRANSACTIONS

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

PLEDGED ASSETS

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

CONTINGENT LIABILITIES

As at March 31, 2019 and up to the date of this MD&A the Company had no material contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

C$6 million 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 "**Subscription**"). The subscriber is a company incorporated under the laws of the British Virgin Islands, and is principally engaged in the investment of clean energy worldwide. On May 14, 2019 the Company announced the completion of the Subscription. It intends to apply the net proceeds from the Subscription to the expansion of its existing business, the development of new business, bank debt, and general working capital.

Gas Handling Agreement

On May 9, 2019, the Company announced it entered into a gas handling agreement ("**Gas Handling Agreement**") with Jixing Energy (Canada) Ltd. ("**Jixing**") whereby the Company will transport its natural gas and associated products through Jixing's Voyager gas gathering system and pipeline. The Gas Handling Agreement will allow for tie-in and production from the Company's Voyager area gas wells. The Company currently forecasts first production from Voyager under the Gas Handling Agreement in the first quarter of 2020.

NON-IFRS FINANCIAL MEASURES

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

Operating netback

	Three months ended March 31,		
	2019	2018	Change
	C$'000	*C$'000*	*%*
Revenue from crude oil and natural gas sales	**5,118**	5,529	(7%)
Trading cost	**(83)**	(81)	2%
Royalties	**(658)**	(840)	(22%)
Operating costs	**(2,353)**	(1,476)	59%
Operating netback	**2,024**	3,132	(35%)

Adjusted EBITDA

	Three months ended March 31,		
	2019	2018	Change
	C$'000	*C$'000*	*%*
Revenue from crude oil and natural gas sales	**5,118**	5,529	(7%)
Trading cost	**(83)**	(81)	2%
Royalties	**(658)**	(840)	(22%)
Operating costs	**(2,353)**	(1,476)	59%
General and administrative costs	**(1,021)**	(1,328)	(23%)
Other income	**5**	6	(11%)
Adjusted EBITDA	**1,008**	1,810	(44%)

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next 12 months are described in Note 4 of the audited annual financial statements for the year ended December 31, 2018.

CHANGES IN ACCOUNTING POLICIES

The Company's accounting policies are described in Note 3 to the December 31, 2018 audited annual financial statements. Those accounting policies have been applied consistently to all periods presented in the interim condensed financial statements except as noted below.

Recent Accounting Standards

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Change in Accounting Policies

Leases

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

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

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

Financial Statement Impact

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

The nature of the Company's leasing activities includes equipment for the use of producing reserves from its oil and gas properties and office space. Refer to Note 8 in the unaudited interim condensed financial statements for the three months ended March 31, 2019 for the values recognized upon implementation in each asset class.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this MD&A, the Company did not have other plans for material investments or capital assets as of the date of this MD&A.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as otherwise disclosed in this MD&A, the Company has no significant investments, acquisitions or disposals planned or in process.

HUMAN RESOURCES

The Company had 10 employees as of March 31, 2019 and 2018. The employees of the Company are employed under employment contracts which set out, among other things, their job scope and remuneration. Further details of their employment terms are set out in the employee handbook of the Company. The Company determines the employees' salaries based on their job nature, scope of duty, and individual performance. The Company also provides reimbursements, allowances for site visits and a discretionary annual bonus for the employees.

RISK FACTORS

The business of resource exploration, development and extraction involves a high degree of risk. Material risks and uncertainties affecting the Company, their potential impact and the Company's principal risk management strategies are substantially unchanged from those disclosed in the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2018. The AIF is available at *www.sedar.com*.

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Mr. Le Bo, Chairman of the Board and Chief Executive Officer ("**CEO**"), and Mr. Jesse Meidl, Chief Financial Officer ("**CFO**"), have designed, or caused to be designed under their supervision, internal controls over financial reporting ("**ICFR**") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Furthermore, the Company used the criteria established in "Internal Control — Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework).

No material changes in the Company's ICFR were identified during the three months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

DIVIDENDS

The Company has not declared or paid any dividends during the three months ended March 31, 2019.