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Persta Resources Inc.

(incorporated under the laws of Alberta with limited liability)

(Stock code: 3395)

**ANNOUNCEMENT OF UNAUDITED RESULTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021**

This announcement is issued pursuant to Rule 13.09(2) 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 and nine months ended September 30, 2021.

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 and nine months ended September 30, 2021 (the “**Interim Results**”) and its business updates. This announcement is issued by the Company pursuant to Rule 13.09(2) of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) 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 Interim Results. Please see the attached announcement for further information.

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

Calgary, November 10, 2021
Hong Kong, November 10, 2021

As at the date of this announcement, the Board comprises of two executive Directors, being Mr. Yongtan Liu and Mr. Pingzai Wang; and three independent non-executive Directors, namely Mr. Richard Dale Orman, Mr. Peter David Robertson and Mr. Larry Grant Smith.



Persta Resources Inc.

CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4.3(3)(a), if an auditor has not performed a review of the financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying condensed interim financial statements of Persta Resources Inc. have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors of the Company. An independent auditor has not performed a review of these condensed financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

STATEMENT OF FINANCIAL POSITION

As at September 30, 2021

(Expressed in Canadian dollars)

Unaudited

	Note	As at September 30, 2021	As at December 31, 2020
Assets			
Current assets:			
Cash and cash equivalents	4	1,284,700	1,071,573
Accounts receivable	5	1,647,906	1,986,850
Prepaid expenses and deposits		<u>415,889</u>	<u>480,793</u>
Total current assets		3,348,495	3,539,216
Exploration and evaluation assets	6	9,775,233	6,974,847
Property, plant and equipment	7	32,431,745	31,797,573
Right of use assets	8	<u>2,342,849</u>	<u>2,355,297</u>
Total Assets		<u>47,898,322</u>	<u>44,666,933</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	9	12,760,447	8,898,738
Current portion of long term debt	10	2,141,077	23,790,351
Current portion of lease liabilities	8	795,013	582,211
Decommissioning liabilities	11	<u>223,740</u>	<u>205,836</u>
Total current liabilities		15,920,277	33,477,136
Other liabilities	12	841,081	351,408
Lease liabilities	8	1,838,050	2,049,417
Long term debt	10	25,930,550	1,885,600
Decommissioning liabilities	11	<u>1,379,277</u>	<u>1,741,996</u>
Total liabilities		45,909,235	39,505,557
Shareholders' equity:			
Share capital	13	213,426,683	213,426,683
Warrants	13	647,034	647,034
Contributed surplus	13	446,242	358,042
Accumulated deficit		<u>(212,530,872)</u>	<u>(209,270,383)</u>
Total shareholders' equity		<u>1,989,087</u>	<u>5,161,376</u>
Total Liabilities and Shareholders' Equity		<u>47,898,322</u>	<u>44,666,933</u>
Going concern	3		
Subsequent events	22		

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

STATEMENT OF INCOME (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

For the three and nine months ended September 30, 2021

(Expressed in Canadian dollars)

Unaudited

		Three months ended September 30,		Nine months ended September 30,	
	Note	2021	2020	2021	2020
Revenue					
Commodity sales from production	14	5,051,302	2,991,443	14,914,698	8,960,189
Trading revenue	14	(1,067)	(1,962)	861	(3,043)
Other income	14	3,755	33,847	31,293	116,676
Royalty expense		<u>(531,075)</u>	<u>(202,008)</u>	<u>(1,468,671)</u>	<u>(142,879)</u>
Total net revenue		4,522,915	2,821,320	13,478,181	8,930,943
Expenses					
Operating costs		(3,607,501)	(3,533,959)	(10,974,010)	(7,118,263)
General and administrative costs	13	(885,936)	(398,863)	(2,071,154)	(2,185,087)
Depletion, depreciation and amortization	6, 7	(1,222,312)	(1,132,068)	(3,924,686)	(3,615,729)
Impairment recovery (losses) and write-offs		<u>3,985,643</u>	<u>—</u>	<u>3,985,643</u>	<u>(480,622)</u>
Total expenses		<u>(1,730,104)</u>	<u>(5,064,890)</u>	<u>(12,984,206)</u>	<u>(13,399,701)</u>
Income (loss) from operations		2,792,811	(2,243,570)	493,975	(4,468,758)
Finance expenses	15	<u>(1,286,300)</u>	<u>(1,216,238)</u>	<u>(3,754,464)</u>	<u>(3,853,084)</u>
Income (loss) before taxes		1,506,511	(3,459,808)	(3,260,489)	(8,321,842)
Income taxes	16	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income (loss) and comprehensive income (loss)		<u>1,506,511</u>	<u>(3,459,808)</u>	<u>(3,260,489)</u>	<u>(8,321,842)</u>
Income (loss) per share					
Basic and diluted	17	<u>0.00</u>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.03)</u>

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the three and nine months ended September 30, 2021

(Expressed in Canadian dollars)

Unaudited

	Note	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	Total Equity
Balance as at January 1, 2021	13	213,426,683	647,034	358,042	(209,270,383)	5,161,376
Share-based expenses		—	—	88,200	—	88,200
Loss for the period		—	—	—	(3,260,489)	(3,260,489)
Balance as at September 30, 2021		<u>213,426,683</u>	<u>647,034</u>	<u>446,242</u>	<u>(212,530,872)</u>	<u>1,989,087</u>
Balance as at January 1, 2020	13	210,366,683	647,034	73,895	(187,419,287)	23,668,325
Share-based expenses		—	—	77,000	—	77,000
Contributed surplus		—	—	160,947	—	160,947
Loss for the period		—	—	—	(8,321,842)	(8,321,842)
Balance as at September 30, 2020		<u>210,366,683</u>	<u>647,034</u>	<u>311,842</u>	<u>(195,741,129)</u>	<u>15,584,430</u>

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

STATEMENT OF CASHFLOWS

For the three and nine months ended September 30, 2021

(Expressed in Canadian dollars)

Unaudited

	Note	Three months ended September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
Cash provided by (used in):					
Operations					
Net income (loss)		1,506,511	(3,459,808)	(3,260,489)	(8,321,842)
Items not involving cash:					
Depletion, depreciation and amortization		1,222,312	1,132,068	3,924,686	3,615,729
Share-based expenses		29,400	46,200	88,200	77,000
Non-cash finance expenses		392,876	365,396	1,146,856	977,976
Unrealized foreign exchange loss (gain)		(1,115)	1,072	209	(1,933)
Impairment recovery (losses) and write-offs		(3,985,643)	—	(3,985,643)	480,622
Funds from operations		(835,660)	(1,915,072)	(2,086,182)	(3,172,448)
Changes in non-cash working capital	4	498,487	(349,739)	3,375,620	(541,528)
Total cash from (used in) operations		(337,173)	(2,264,811)	1,289,438	(3,713,976)
Investing					
Expenditures on property, plant and equipment		(265,968)	1,140,280	(1,470,505)	1,480,333
Expenditures on exploration and evaluation assets		(344,820)	(35,497)	(344,284)	(166,191)
Net cash generated from (used in) investing		(610,788)	1,104,783	(1,814,789)	1,314,142
Financing					
Principal portion of lease payments		(184,791)	—	(541,293)	—
Interest portion of lease payments		(75,314)	—	(220,020)	—
Proceeds from debt		1,500,000	—	1,500,000	2,000,000
Net cash from financing		1,239,895	—	738,687	2,000,000
Increase (decrease) in cash and cash equivalents		291,935	(1,160,028)	213,336	(399,835)
Effect of exchange rate changes on cash and cash equivalents		1,115	(1,072)	(209)	1,933
Cash and cash equivalents, beginning of period		991,650	1,823,950	1,071,573	1,060,752
Cash and cash equivalents, end of period		1,284,700	662,850	1,284,700	662,850
Supplementary information:					
Interest paid		854,467	835,292	2,523,047	2,360,887

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

NOTES TO THE FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021

(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 traded under the stock code “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, 2020. 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, 2020 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 2020 annual financial statements. These unaudited condensed interim financial statements were approved by the board (the “**Board**”) of directors (the “**Directors**”) on November 10, 2021.

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

3 GOING CONCERN

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at September 30, 2021 the Company had a working capital deficiency of C\$12.6 million, used funds from operating activities of C\$2.1 million for the nine months ended September 30, 2021 and has drawn C\$24.3 million on its subordinated debt facility of C\$26 million. Additional draws on the subordinated debt facility are subject to approval of the lender.

On June 30, 2021, the Company and lender agreed to restructure the loan agreement (the “**2021 Restructuring**”). Under the terms of the 2021 Restructuring, financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 10) have been waived for the remainder of 2021, and will be reinstated starting March 31, 2022. Financial covenants in respect of working capital have been eliminated for the remainder of

the loan. A funding covenant has been added whereby the Company must secure additional capital in the form of new equity for a cumulative amount equal to or greater than C\$8 million on or before November 30, 2021. The Company must make a C\$4.4 million principal payment on or before November 30, 2021 (the “**2021 Principal Payment**”).

To satisfy the C\$8 million funding and 2021 Principal Payment covenants, the Company plans to complete equity placings of up to 71 million common shares to be issued at a minimum of HK\$0.80 per share for gross proceeds of a minimum of C\$9.1 million. The placings are expected to close on or before November 30, 2021 (refer to Note 13).

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

The Company’s ability to continue as a going concern is dependent upon the ability to generate positive cash flow from operations, obtain equity financing, dispose of assets or other arrangements to fund operating and investing activities. There are no assurances that any waivers will be obtained or transactions will be completed, on terms acceptable to the Company. If these financial covenants are not met or a waiver is not obtained by lenders, the subordinated debt facility may become due on demand. These conditions cause material uncertainty which cast significant doubt on the Company’s ability to continue as a going concern.

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

4 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	As at September 30, 2021	As at December 31, 2020
C\$		
Deposits with banks and other financial institutions	1,282,695	1,069,568
Cash on hand	<u>2,005</u>	<u>2,005</u>
Cash and cash equivalents in the statement of financial position and statement of cash flows	<u>1,284,700</u>	<u>1,071,573</u>

(b) Supplementary cash flows information

C\$	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Change in non-cash working capital:				
Accounts receivable	(151,346)	1,950,884	(338,944)	1,019,715
Prepaid expenses and deposits	(60,243)	(46,735)	(64,904)	(176,040)
Accounts payable and accrued liabilities	(2,653,893)	(1,705,677)	(4,351,382)	(1,299,453)
Lease liabilities ⁽¹⁾	<u>—</u>	<u>177,678</u>	<u>—</u>	<u>625,963</u>
	(2,865,482)	376,150	(4,755,230)	170,185
Change in non-cash working capital included in investing and financing activities	<u>3,363,969</u>	<u>(725,889)</u>	<u>8,130,850</u>	<u>(711,713)</u>
Change in non-cash working capital included in operating activities	<u>498,487</u>	<u>(349,739)</u>	<u>3,375,620</u>	<u>(541,528)</u>

(1) Lease liabilities classified as financing activities for the three and nine months ended September 30, 2021

5 ACCOUNTS RECEIVABLE

C\$	As at	As at
	September 30, 2021	December 31, 2020
Trade receivables	1,647,023	1,680,327
Other receivables	<u>883</u>	<u>306,523</u>
Total	<u>1,647,906</u>	<u>1,986,850</u>

(a) Aging analysis of trade receivables

As at September 30, 2021 and December 31, 2020, the aging analysis of trade receivables (included in accounts receivable), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

C\$	As at	As at
	September 30, 2021	December 31, 2020
Within 1 month	<u>1,647,023</u>	<u>1,680,327</u>

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

(b) Impairment of accounts receivable

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Company determines that recovery of the amount is remote, in which case the impairment loss is written off against account receivables directly. No accounts receivable are considered individually nor collectively to be impaired. No material balances of trade or other receivables are past due, and no impairment loss has been recognized for the three and nine month periods ended September 30, 2021 and year ended December 31, 2020.

6 EXPLORATION AND EVALUATION ASSETS

	As at September 30, 2021	As at December 31, 2020
C\$		
Balance, beginning of period	6,974,847	18,543,990
Additions	2,832,622	167,684
Transfer to PP&E (<i>Note 7</i>)	—	(7,400,192)
Write-offs	(32,236)	(741,451)
Impairment	—	(3,595,184)
Balance, end of period	9,775,233	6,974,847

Exploration and evaluation (“**E&E**”) assets consist of undeveloped lands, unevaluated seismic data and unevaluated drilling and completion costs on the Company’s exploration projects which are pending the determination of proven or probable reserves in sufficient quantity to warrant commercial development. Transfers are made to property, plant and equipment (“**PP&E**”) as proven or probable reserves are determined. E&E assets are expensed due to uneconomic drilling and completion activities and write-offs of lease expiries. Impairment is assessed based on the recoverable amount compared with the asset’s carrying amount to measure the amount of the impairment.

For the nine months ended September 30, 2021, E&E additions are primarily comprised of capex incurred for the drilling of a new well at Basing. The well is scheduled to be completed and tested in November, and if successful the Company forecasts first production before the end of this year, and the E&E costs incurred for the well will be transferred to PP&E in accordance with the Company’s accounting policies.

For the nine months ended September 30, 2021, general and administrative (“**G&A**”) costs of C\$0.04 million (2020: C\$0.16 million) were capitalized and included in E&E additions as they were directly attributable to exploration and development activities. For the nine months ended September 30, 2021, the Company wrote-off C\$0.03 million (2020: C\$0.74 million) of E&E assets attributable to land lease expiries.

At December 31, 2020 and September 30, 2021, the Company’s E&E assets in respect of its Voyager and Dawson CGUs is comprised solely of undeveloped lands in which the Company holds a right to explore for, and produce petroleum and natural gas.

PP&E transfer

With the commissioning of production operations at Voyager in the second quarter of 2020, at June 30, 2020 the Company initially transferred C\$6.8 million of E&E assets to PP&E, comprised of development and production costs incurred for Voyager. C\$0.6 million of Voyager E&E assets were subsequently transferred to PP&E in the fourth quarter of 2020.

7 PROPERTY, PLANT AND EQUIPMENT

C\$	Cost	Accumulated Depletion, Depreciation and Impairment	Net Book Value
At January 1, 2020	151,706,916	(117,056,706)	34,650,210
Additions	1,764,681	—	1,764,681
Change in decommissioning obligations	(97,972)	—	(97,972)
Transfer from E&E (<i>Note 6</i>)	7,400,192	—	7,400,192
Cost recovery	(1,568,373)	—	(1,568,373)
Depletion and depreciation	—	(4,961,805)	(4,961,805)
Impairment	—	(5,389,360)	(5,389,360)
At December 31, 2020	<u>159,205,444</u>	<u>(127,407,871)</u>	<u>31,797,573</u>
At January 1, 2021	159,205,444	(127,407,871)	31,797,573
Additions	260,683	—	260,683
Change in decommissioning obligations	(274,879)	—	(274,879)
Depletion and depreciation	—	(3,369,511)	(3,369,511)
Impairment recovery	—	4,017,879	4,017,879
At September 30, 2021	<u>159,191,248</u>	<u>(126,759,503)</u>	<u>32,431,745</u>

Substantially all of PP&E consists of development and production assets. For the nine months ended September 30, 2021, PP&E additions are primarily comprised of G&A capitalized in accordance with the Company's accounting policies (2020: C\$0.2 million).

Depletion, depreciation, impairment and impairment recovery

Depletion and depreciation, impairment of PP&E, and any reversal thereof, are recognized as separate line items in the statement of net income (loss) and other comprehensive income (loss). The depletion calculation for the nine months period ended September 30, 2021 includes estimated future development costs of C\$6.08 million (2020: C\$6.08 million) associated with the development of the Company's proved plus probable reserves. When indications of impairment are identified, or when E&E assets are transferred to PP&E, impairment is assessed based on the recoverable amount compared with the asset's carrying amount to measure the amount of the impairment, refer to Note 4 in the audited financial statements for the year ended December 31, 2020 for additional information on the Company's accounting policies.

2021 PP&E impairment recovery

At September 30, 2021, the Company identified indicators of impairment recovery in its PP&E assets in the Basing and Dawson CGU's attributable to increases in commodity prices. The recoverable amount of the Basing and Dawson CGU's was estimated based upon the higher of the value in use or fair value less costs of disposal ("FVLCD"). In each case, fair value less costs of disposal was used. The Company calculated the recoverable amount of the Basing and Dawson CGU's based on forecasted cash flows from proved plus probable reserves using a 12% before-tax discount rate with escalated prices and future development costs as obtained from the independent reserve report. Based on the assessment, the carrying amount of the Company's Basing CGU was lower than its recoverable amount

and the Company recognized an impairment recovery of C\$3.7 million. Based on the assessment, the carrying amount of the Dawson CGU was lower than its recoverable amount and the Company recognized an impairment recovery of C\$0.3 million.

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

	As at September 30, 2021	
	Edmonton Oil	AECO Gas
	<i>(C\$/Bbl)</i>	<i>(C\$/mmbtu)</i>
Remainder 2021	87.24	4.57
2022	80.95	3.83
2023	76.44	3.25
2024	73.66	2.99
2025	75.13	3.05
2026	76.64	3.11
2027	78.17	3.18
2028	79.74	3.24
2029	81.33	3.31
2030	82.96	3.37
2031	84.62	3.44
2032	86.31	3.51
2033	88.04	3.58
2034	89.80	3.65
2035	91.59	3.72
2036 ⁽¹⁾	+2.0%/yr	+2.0%/yr

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

8 RIGHT OF USE ASSETS AND LEASES

(a) Right of use assets

<i>C\$</i>	Oil and Gas Production	Office Space	Vehicles	Total
At January 1, 2020	135,367	2,275,104	—	2,410,471
Initial recognition	540,265	—	21,084	561,349
Amortization	<u>(168,124)</u>	<u>(440,343)</u>	<u>(8,058)</u>	<u>(616,523)</u>
At December 31, 2020	<u>507,508</u>	<u>1,834,761</u>	<u>13,026</u>	<u>2,355,297</u>
At January 1, 2021	507,508	1,834,761	13,026	2,355,297
Additions	542,728	—	—	542,728
Amortization	<u>(218,875)</u>	<u>(330,257)</u>	<u>(6,044)</u>	<u>(555,175)</u>
At September 30, 2021	<u>831,361</u>	<u>1,504,504</u>	<u>6,982</u>	<u>2,342,849</u>

(b) Lease liabilities

C\$	Oil and Gas Production	Office Space	Vehicles	Total
At January 1, 2020	141,428	2,522,323	—	2,663,751
Initial recognition	540,265	—	21,084	561,349
Lease payment	<u>(172,471)</u>	<u>(413,754)</u>	<u>(7,247)</u>	<u>(593,472)</u>
At December 31, 2020	<u>509,222</u>	<u>2,108,569</u>	<u>13,837</u>	<u>2,631,628</u>
At January 1, 2021	509,222	2,108,569	13,837	2,631,628
Additions	542,728	—	—	542,728
Lease payment	<u>(200,555)</u>	<u>(335,141)</u>	<u>(5,598)</u>	<u>(541,293)</u>
At September 30, 2021	<u>851,395</u>	<u>1,773,428</u>	<u>8,239</u>	<u>2,633,063</u>

C\$	As at September 30, 2021	As at December 31, 2020
Statement of Financial Position		
Current lease liabilities	795,013	582,211
Long term lease liabilities	<u>1,838,050</u>	<u>2,049,417</u>
Total lease liabilities	<u>2,633,063</u>	<u>2,631,628</u>

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

C\$	As at September 30, 2021	As at December 31, 2020
Trade payables	748,791	394,767
Accrued liabilities	<u>3,130,313</u>	<u>3,133,307</u>
Total trade payables and accrued liabilities	3,879,105	3,528,074
Due to related party	3,393,268	—
Capital payables	5,205,290	5,111,454
Other payables	<u>282,784</u>	<u>259,210</u>
Total	<u>12,760,447</u>	<u>8,898,738</u>

All trade payables, accrued liabilities, capital payables and other payables are expected to be settled within one year or are payable on demand. Related party payables are owed to Jixing Energy (Canada) Inc. (“**Jixing**”) pursuant to the Jixing Gas Handling and Voyager Compression Agreements (as defined in Note 26b of the Company’s audited financial statements for the year ended December 31, 2020).

As at September 30, 2021 and December 31, 2020, capital payables are primarily comprised of costs incurred pursuant to the Contract (as defined in Note 12 of the Company's audited financial statements for the year ended December 31, 2020). As at September 30, 2021 and December 31, 2020, other payables are primarily comprised of office renovation and rent inducement expenditures.

Aging analysis of trade payables and accrued liabilities

As at September 30, 2021 and December 31, 2020, the aging analysis of trade payables and accrued liabilities based on dates of invoices at the end of the reporting period is as follows:

	As at September 30, 2021	As at December 31, 2020
C\$		
Within 1 month	2,675,742	2,639,606
1 to 3 months	1,136,810	563,342
Over 3 months but within 6 months	<u>66,553</u>	<u>325,126</u>
Total	<u>3,879,105</u>	<u>3,528,074</u>

10 LONG TERM DEBT

	As at September 30, 2021	As at December 31, 2020
C\$		
Shareholder loans (net)	4,079,407	2,533,290
Subordinated debt	23,578,600	23,578,600
Accrued and unpaid interest on subordinated debt	717,135	356,699
Less: deferred financing costs	<u>(303,515)</u>	<u>(792,638)</u>
Total	<u>28,071,627</u>	<u>25,675,951</u>
Current	2,141,077	23,790,351
Long term	<u>25,930,550</u>	<u>1,885,600</u>

(a) Subordinated debt

On June 30, 2021, the Company and lender agreed to restructure the loan agreement (the "2021 Restructuring"). Under the terms of the 2021 Restructuring, the lender waived financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA for the remainder of 2021 and the breaches which occurred at March 31, 2021. Financial covenants in respect of working capital have been eliminated for the remainder of the loan term. Pursuant to the 2021 Restructuring, the SubDebt is subject to the following covenants for 2021 (a) the Company must secure additional capital in the form of new equity for a cumulative amount equal to or greater than C\$8 million on or before September 30, 2021 ("2021 Funding Covenant"); (b) measured at the end of each fiscal quarter maintaining the Company's Alberta Energy liability management ratio above 2.0/1.0 ("LMR Covenant"); and (c) a C\$2.2 million principal payment on or before August 31, 2021 and a C\$2.2 million principal payment on or before September 30, 2021 (together, the "2021 Principal Payments"). Subsequent to period end, the Company and lender agreed to defer the 2021 Principal Payments covenant to November 30,

2021. Pursuant to the 2021 Restructuring, the PIK Interest and Penalty Interest payments will terminate when the loan balance is below C\$20 million, and the loan interest rate will reduce to 10% when the loan balance is below C\$15 million.

Additionally, payments or distributions to any related party are subject to consent of the lender if the loan balance is provided the following conditions are satisfied: the loan balance is equal to or less than C\$15 million; or if the loan balance is less than C\$17.5 million, but greater than C\$15 million, the Debt to Trailing EBITDA Ratio (as defined in Note 13 of the audited financial statements for the year ended December 31, 2020) shall be less than 3.5:1.0 at such time, and, in either case, any payment or distribution shall only be permitted where no pending event of default or event of default has occurred (collectively, the “**Insider Repayment Restrictions**”).

(b) Shareholder loans

On December 23, 2019, Jixing advanced C\$0.675 million to the Company (the “**2019 Shareholder Loan**”). The full proceeds of the 2019 Shareholder Loan were applied to amounts due in respect of the Contract (refer to Note 12). The 2019 Shareholder Loan has a term of two years, is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company’s sole discretion. In calculating the C\$0.6 million fair value of the 2019 Shareholder Loan as at December 31, 2019, the Company applied an effective interest rate of 5.97%, comprised of 4% base plus 1.97% Canadian Dealer Offered Rate (“**CDOR**”). The residual of C\$0.07 million was recorded to Contributed Surplus (refer to Note 13). On April 27, 2021 the Company and Jixing agreed to extend the term of the 2019 Shareholder Loan one year to December 23, 2022.

On June 2, 2020, a Persta director advanced C\$2 million to the Company (the “**2020 Shareholder Loan**”). The proceeds of the 2020 Shareholder Loan were used for working capital and general corporate purposes. The 2020 Shareholder Loan has a term of two years, is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company’s sole discretion. In calculating the C\$1.85 million fair value of the 2020 Shareholder Loan as at June 2, 2020, the Company assumed an effective interest rate of 4% per annum base plus one month CDOR, over the term of the 2020 Shareholder Loan. On this basis the effective rate was 4.28% per annum, comprised of 4% base plus 0.28% CDOR. The residual of C\$0.16 million was recorded to Contributed Surplus (refer to Note 13).

On September 1, 2021, the Company and a Persta director arranged a loan facility for up to C\$3 million (the “**2021 Shareholder Loan**”). C\$1.5 million was advanced to the Company on the same day, the remaining C\$1.5 million was advanced to the Company on October 27, 2021. The proceeds were used to fund part of the capital costs for the new Basing well and general corporate purposes. The 2021 Shareholder Loan matures on December 31, 2021, subject to the Insider Repayment Restrictions. The 2021 Shareholder Debt is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company’s sole discretion subject to the Insider Repayment Restrictions. As at September 30, 2021, the 2021 Shareholder Loan is carried at its face value as a Current Liability.

11 DECOMMISSIONING LIABILITIES

C\$	As at September 30, 2021	As at December 31, 2020
Balance, beginning of period	1,947,832	2,084,399
Liabilities settled	(101,098)	(58,614)
Change in estimate	(274,879)	(97,972)
Accretion expense (<i>Note 15</i>)	<u>31,161</u>	<u>20,019</u>
Balance, end of period	<u>1,603,017</u>	<u>1,947,832</u>
Current	223,740	205,836
Long term	<u>1,379,277</u>	<u>1,741,996</u>

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 September 30, 2021, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning obligations to be approximately C\$2.5 million which will be incurred between 2020 and 2067. The majority of these costs will be incurred by 2037. As at September 30, 2021, an average risk free rate of 1.92% (2020: 1.1%) and an inflation rate of 0.7% (2020: 0.7%) were used to calculate the decommissioning obligations.

12 OTHER LIABILITIES

C\$	As at September 30, 2021	As at December 31, 2020
Accrued compensation per Phantom Unit Plan ⁽¹⁾	748,618	258,944
Other payables	<u>92,463</u>	<u>92,464</u>
Total	<u>841,081</u>	<u>351,408</u>

(1) As defined in Note 19 of the Company's audited financial statements for the year ended December 31, 2020

As at September 30, 2021 and December 31, 2020, other payables are primarily comprised of office renovation and rent inducement expenditures.

13 SHARE CAPITAL

(a) Authorized:

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

(b) Issued:

	Common Shares	Amount C\$
At January 1, 2020	301,886,520	210,366,683
Shares issued for cash	<u>60,000,000</u>	<u>3,060,000</u>
At December 31, 2020 and September 30, 2021	<u>361,886,520</u>	<u>213,426,683</u>

On December 23, 2020, the Company completed a private placement issuing 60 million shares at a price of HK\$0.30 per share for gross proceeds of HK\$18 million (C\$3.06 million). On June 9, 2021 the Company entered into a subscription agreement with Dalian Yongli Petrochemical Ltd. (“**Dalian**”), pursuant to which the Company has conditionally agreed to allot and issue, and Dalian has conditionally agreed to subscribe for 55 million common shares at a minimum price of HK\$0.80 per common share. As Dalian is a connected person (as defined in the Listing Rules) of the Company, the subscription agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. Independent Shareholders’ approval was obtained at a special general meeting held on October 15, 2021. The Dalian placing is anticipated to close on or before November 30, 2021. Please refer to the announcement of the Company dated June 9, 2021, June 10, 2021, July 21, 2021, September 3, 2021, October 18, 2021 and October 28, 2021 respectively and circular of the Company dated September 17, 2021 for additional information on the Dalian equity subscription.

On September 3, 2021, the Company entered into a subscription agreement with Jilin Nuoshida Energy Investment Co., Ltd. (“**Jilin**”), pursuant to which the Company has conditionally agreed to allot and issue, and Jilin has conditionally agreed to subscribe for 16 million common shares at a price of HK\$0.80 per common share under General Mandate (as defined in the Listing Rules). The Jilin placing is anticipated to close on or before November 30, 2021. Please refer to the announcement of the Company dated September 3, 2021, September 30, 2021 and October 28, 2021 respectively for additional information on the Jilin equity subscription.

(c) Warrants:

On August 13, 2018, the Company issued 8 million warrants to the lender of the subordinated debt facility for total consideration of C\$0.75 million. The warrants have an exercise price of HK\$3.16 per warrant and a term of 5 years. Pursuant to the 2020 Restructuring (see Note 13 of the audited financial statements for the year ended December 31, 2020), the Company has agreed to re-price the 8 million share purchase warrants previously issued to the lender. This re-pricing is subject to Stock Exchange and shareholder approval. The new exercise price of the warrants will be calculated based on the volume weighted average price of the Common Shares on the Stock Exchange for the five trading days immediately preceding the date on which the re-pricing of the exercise price

of the warrants is approved by the shareholders. As at September 30, 2021 and up to the date of these financial statements, the Company has not yet set a date for the shareholder meeting to approve the re-pricing of the warrants.

(d) Stock options and share-based expenses:

The Company has a stock option plan which was approved and adopted by the shareholders of the Company by ordinary resolution passed on June 8, 2018 (the “**Option Plan**”). The Option Plan is a rolling plan and provides that the number of common shares issuable under the Option Plan, together with all of the Company’s other previously established or proposed share compensation arrangements, may not exceed 10% of the total number of issued and outstanding common shares, on a non-diluted basis, as of the date on which the Option Plan is approved by the shareholders. The exercise price of each option equals the volume-weighted average market price for the five days preceding the issue date of the Company’s stock on the date of grant and the options maximum term is ten years. Options granted vest 1/3 on each of the first, second and third anniversaries from the date of grant.

<i>HK\$ except number of options amounts</i>	Number of Options	Exercise Price
At January 1, 2020	—	—
Granted	<u>3,780,000</u>	<u>\$0.52</u>
At December 31, 2020 and September 30, 2021	<u>3,780,000</u>	<u>\$0.52</u>

The average trading price of the Company’s common shares was HK\$0.41 per share for the nine months ended September 30, 2021. The following table summarizes stock options outstanding and exercisable at September 30, 2021:

Exercise Price (HK\$)	Amount Outstanding at Period End	Remaining Contractual Life	Weighted Average Exercise Price (HK\$)	Amount Exercisable at Period End	Weighted Average Exercise Price (HK\$)
\$0.52	<u>3,780,000</u>	<u>3.61 years</u>	<u>\$0.52</u>	<u>1,247,400</u>	<u>\$0.52</u>

(e) Contributed surplus:

As at December 31, 2020 and September 30, 2021, contributed surplus is comprised of the difference between the deemed fair value and gross value of the Shareholder Loans (refer to Note 10) at the date of initial recognition, and share-based expenses incurred during the period.

14 REVENUE

	Three months ended September 30,		Nine months ended September 30,	
C\$	2021	2020	2021	2020
Commodity sales from production				
Natural gas, natural gas liquids and condensate	4,477,285	2,758,108	13,493,556	8,442,060
Crude oil	<u>574,018</u>	<u>233,335</u>	<u>1,421,143</u>	<u>518,129</u>
Total commodity sales from production	<u>5,051,302</u>	<u>2,991,443</u>	<u>14,914,698</u>	<u>8,960,189</u>
Trading revenue				
Natural gas trading revenue	72,463	48,034	144,243	95,685
Natural gas trading cost	<u>(73,530)</u>	<u>(49,995)</u>	<u>(143,382)</u>	<u>(98,728)</u>
Total trading revenue	<u>(1,067)</u>	<u>(1,961)</u>	<u>861</u>	<u>(3,043)</u>
Other income				
Total other income	<u>3,755</u>	<u>33,847</u>	<u>31,293</u>	<u>116,676</u>

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

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

Other income is comprised of over-riding royalty payments and income generated from sources outside normal operations including rental income and subsidies. Over-riding royalty payments are periodically received from arm's length entities, whereby the Company receives a portion of oil and natural gas revenues generated from wells in which it holds a royalty interest.

Information about major customers

During the nine months ended September 30, 2021 and 2020, the Company had four active customers, of which one customer exceeded 10% of the Company's revenues. During the nine months ended September 30, 2021, the Company's largest customer accounted for 79% of revenues (2020: 84%), the second largest customer accounted for 10% of revenues (2020: 9%).

Geographical information

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

Timing of revenue recognition

For the nine months ended September 30, 2021 and 2020, all of the Company's revenues and commodity sales from production is recognized at a point in time.

15 FINANCE EXPENSES

C\$	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Interest expense and financing costs:				
Subordinated debt (<i>Note 10</i>)	1,014,033	856,037	2,995,982	2,688,527
Right of use assets and leases (<i>Note 8</i>)	75,314	54,847	220,020	168,784
Commitment charges ⁽¹⁾	29,363	—	65,366	352,163
Other financing costs and bank charges	10,709	136,263	18,986	168,319
Accretion expenses:				
Decommissioning liabilities (<i>Note 11</i>)	328	1,455	31,161	18,017
Shareholder loans (<i>Note 10</i>)	32,127	26,725	46,117	65,281
Amortization of debt issuance costs	125,541	140,910	376,623	391,992
Loss (gain) on foreign exchange	(1,115)	—	209	—
Total finance expenses	1,286,300	1,216,238	3,754,464	3,853,084

- (1) For the nine months ended September 30, 2020, commitment charges are comprised of subordinated debt restructuring costs, termination fees incurred following the Company's cancellation of a warrant subscription agreement with an arms' length subscriber and costs associated with the Company's PSG facility (*Note 20*).

16 INCOME TAXES

The blended statutory tax rate was 23% for the nine month period ended September 30, 2021 (2020: 25.5%). In the second quarter of 2019, the Alberta corporate income tax rate was reduced from 12 percent to eight percent over a four year period. The rate was reduced from 12% to 11% effective July 1, 2019 and will be further reduced by 1% on January 1 for each of the next three years until it reaches 8% on January 1, 2022. The provision for income taxes differs from the result that would have been obtained by applying the combined federal and provincial tax rates to the loss before income taxes due to changes in unrecognized deferred tax assets. As at September 30, 2021, the Company has approximately C\$121 million of deductible temporary differences in PP&E and E&E assets, decommissioning liabilities, share issue costs, non-capital losses and others. As at September 30, 2021, the Company has approximately C\$121 million of tax deductions, which includes loss carry forwards of approximately C\$34 million which begin expiring in 2037.

17 INCOME (LOSS) PER SHARE

<i>C\$ except share amounts</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Net income (loss) and comprehensive income (loss)	1,506,511	(3,459,808)	(3,260,489)	(8,321,842)
Weighted average number of common shares	<u>361,886,520</u>	<u>301,886,520</u>	<u>361,886,520</u>	<u>301,886,520</u>
Income (loss) per share — basic and diluted	<u>0.00</u>	<u>(0.01)</u>	<u>(0.01)</u>	<u>(0.03)</u>

There were 3.78 million options and 8 million warrants excluded from the weighted-average share calculations for the three and nine months ended September 30, 2021 and 2020.

18 DIVIDEND

The Board did not recommend the payment of a dividend for the nine month periods ended September 30, 2021 and 2020.

19 RELATED PARTY TRANSACTIONS, PERSONNEL COSTS AND REMUNERATION POLICY

(a) Remuneration policy

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

(b) Transactions with key management personnel

Key management compensation for the three and nine month periods ended September 30, 2021 totaled C\$0.2 million and C\$0.6 million respectively (2020 three months: C\$0.2 million, 2020 nine months: C\$1.2 million). For the three and nine month periods ended September 30, 2021 the Company recognized share-based compensation expenses of C\$0.03 million and C\$0.08 million respectively (2020 three months: C\$0.05 million, 2020 nine months: C\$0.08 million).

(c) Transactions with directors

Director Compensation

Director compensation for the three and nine month periods ended September 30, 2021 totaled C\$0.36 million and C\$0.6 million respectively. Total compensation for the nine months ended September 30, 2021 was comprised of C\$0.09 million of cash (2020: C\$0.09 million) and C\$0.5 million (2020: C\$0.13) accrued pursuant to the Phantom Unit Plan (as defined in Note 19 of the Company's audited financial statements for the year ended December 31, 2020). As at September 30, 2021 the total accrued compensation under the Phantom Unit Plan was C\$0.7 million (2020: C\$0.3 million).

Shareholder Loan

On September 1, 2021, the Company and a Persta director arranged a loan facility for up to C\$3 million (the “**2021 Shareholder Loan**”). C\$1.5 million was advanced to the Company on the say day, the remaining C\$1.5 million was advanced to the Company on October 27, 2021. The proceeds were used to fund part of the capital costs for the new Basing well and general corporate purposes. The 2021 Shareholder Loan matures on December 31, 2021, subject to the Insider Repayment Restrictions (see Note 10). The 2021 Shareholder Debt is unsecured, non-interest bearing, carries no covenants, and is repayable at any time at the Company’s sole discretion subject to the Insider Repayment Restrictions. As at September 30, 2021, the 2021 Shareholder Loan is carried at its face value as a Current Liability.

Save as disclosed above, all other transactions with directors are unchanged from those disclosed in Note 26 of the audited financial statements for the year ended December 31, 2020.

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Overview

The Company has exposure to credit risk, liquidity and market risk from its use of financial instruments. This note presents information about the Company’s exposure to each of the risks, the Company’s objectives, policies and processes for measuring and managing risk, and the Company’s management of capital. The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company’s activities.

(a) Credit risk

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

Credit risk on trade and other receivables is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from purchasers of the Company’s crude oil and natural gas and joint venture partners. The Company seeks to manage its credit risk on trade and other receivables by trading with third party customers it considers to be creditworthy. As at September 30, 2021 the Company’s accounts receivables consisted of C\$1.7 million (2020: C\$1.7 million) due from purchasers of the Company’s crude oil and natural gas production.

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 September 30, 2021. The Company has also not written off any receivables during the year ended December 31, 2020 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 September 30, 2021, all of the trade receivables were less than 90 days old.

(b) Liquidity risk

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

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

The contractual maturities of financial liabilities as at September 30, 2021 are as follows:

C\$	Carrying amount	Total	1 year or less	1–3 years	4+ years
Accounts payable and acc. liabilities	12,760,447	12,760,447	12,760,447	—	—
Other liabilities	841,081	841,081	—	841,081	—
Lease liabilities	2,633,063	3,161,827	1,040,417	1,835,736	285,673
Shareholder loans ⁽¹⁾	4,079,407	4,175,000	1,500,000	2,675,000	—
Subordinated debt ⁽²⁾	<u>23,992,221</u>	<u>24,295,735</u>	<u>—</u>	<u>24,295,735</u>	<u>—</u>
Total	<u>44,306,219</u>	<u>45,234,090</u>	<u>15,300,864</u>	<u>29,647,553</u>	<u>285,673</u>

(1) Gross value of shareholder loan as per Note 10

(2) Subordinated debt plus accrued and unpaid interest as per Note 10

(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 nine month periods ended September 30, 2021 and 2020.

Interest rate risk

As at September 30, 2021 the Company's debts are comprised of shareholder's loans, SubDebt and amounts owing under the Contract (refer to Note 12 in the audited financial statements for the year ended December 31, 2020), which all carry a fixed interest rate. As at September 30, 2021 and 2020, the Company has no variable rate borrowings. As such, a one percent change in prevailing interest rates would not change the Company's net income (loss) for the three and nine months ended September 30, 2021 and 2020.

Foreign currency risk

The Company manages foreign exchange risk by monitoring foreign exchange rates and evaluating their effects on using Canadian or Hong Kong vendors as well as timing of transactions. The Company recognizes a foreign exchange gain/loss based on the revaluation of monetary items held in Hong Kong Dollars and the value changes with the fluctuation in the HKD/CAD exchange rates. As at September 30, 2021, the Company held HK\$0.3 million (C\$0.04 million based on the HKD/CAD exchange rate at the same date). Changes in the HKD/CAD foreign exchange rate of less than 10% would not materially change the Company's financial statements.

(d) Capital management

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

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

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

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

The following represents the capital structure of the Company:

	As at September 30, 2021	As at December 31, 2020
C\$		
Long term debt (<i>excluding current portion as per Note 10</i>)	25,930,550	1,885,600
Other liabilities	841,081	351,408
Lease liabilities	2,633,063	2,631,628
Net working capital deficit	<u>12,571,782</u>	<u>29,937,920</u>
Net debt	41,976,476	34,806,556
Shareholders' equity	<u>1,989,087</u>	<u>5,161,376</u>
Total	<u>43,965,563</u>	<u>39,967,932</u>

(e) **Performance services guarantee (“PSG”) facility**

On April 25, 2018, the Company obtained a PSG facility from Economic Development Canada (“EDC”) totaling C\$4.4 million. On July 30, 2020 the aggregate PSG was reduced to C\$1.85 million. Under the terms of the PSG facility, EDC will guarantee qualifying letters of credit (“L/C”) on behalf of the Company. Previously, these L/C’s were cash collateralized, following approval by the EDC the requirement of the Company to hold cash to underwrite the L/C is relieved for the duration of the PSG approval. Under the terms of the PSG facility, the L/C guarantee period is the lesser of one year or the term of the L/C if less than 12 months. The guarantee can be renewed annually for long term L/C’s subject to subsequent approval by the EDC. The PSG facility has a 12 month term expiring September 21, 2022, and must be renewed annually. As at September 30, 2021, the Company has PSG coverage for the following L/C’s:

Amount	Expiry
C\$1,392,000	June 14, 2022
C\$408,158	March 31, 2022

21 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 September 30, 2021:

C\$	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Transportation commitment	29,277,595	6,129,710	12,359,083	10,482,364	306,438
Jixing agreements ⁽²⁾	127,241,380	5,499,181	13,866,350	19,319,906	88,555,943
PSG facility ⁽¹⁾	<u>1,800,158</u>	<u>—</u>	<u>1,800,158</u>	<u>—</u>	<u>—</u>
Total	<u>158,319,133</u>	<u>11,628,891</u>	<u>28,025,591</u>	<u>29,802,271</u>	<u>88,862,380</u>

(1) The PSG facility commitment will only be due if the facility is not renewed and the L/C's are cash collateralized by the Company (see Note 20).

(2) Refer to Note 26 in the audited financial statements for the year ended December 31, 2020 for details on the Jixing agreements.

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.

22 SUBSEQUENT EVENT

COVID-19

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



Persta Resources Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2021 and 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") of Persta Resources Inc. ("**Persta**" or the "**Company**") should be read in conjunction with the Company's unaudited condensed financial statements and notes thereto for the three and nine months ended September 30, 2021 (the "**Financial Statements**") and the audited financial statements and notes thereto for the years ended December 31, 2020 (the "**2020 Audited Financial Statements**"). All amounts and tabular amounts in this MD&A are stated in thousands of Canadian dollars ("**C\$ 000**") unless indicated otherwise. This MD&A is dated November 10, 2021.

FORWARD LOOKING INFORMATION

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

FUTURE PROSPECTS

Between 2006 and 2018, the Company acquired Petroleum and Natural Gas Licenses at Basing, Voyager and Kaydee in the Alberta Foothills, at Dawson near Peace River and at Progress-Montney in northern Alberta. Approximately 85% of the Company's revenue is generated from Basing which is gas weighted. Voyager is geologically analogous to Basing and commenced production in the second quarter of 2020. All of the Company's oil production is generated from Dawson. Kaydee and Progress-Montney are prospective areas currently undeveloped.

Natural gas comprises 90% of the Company's production. The price of gas in western Canada has continued to strengthen over the past year reaching 7-year highs in the third quarter of 2021. Gas futures as at the date of this MD&A forecasts pricing will remain strong for the remainder of this year and through 2022. Notwithstanding the Company's gas weighting, Persta also benefits from the continued strength in oil prices which has also tested multi year highs. As the spot price for gas and oil changes daily, there is no guarantee the Company will sell its production in the future for currently forecast prices.

During the third quarter of 2021, the Company arranged the conditional placing of 71 million common shares at a price of HK\$0.80 per share for total gross proceeds of a minimum of HK\$58 million (C\$9.1 million). 55 million common shares have been subscribed by Dalian (refer to Note 13 of the Financial Statements) and is subject to Stock Exchange and independent shareholders' approval which was obtained at the special general meeting held on October 15, 2021, with completion of the placing on or before November 30, 2021. The Company intends to use approximately 45% of the proceeds to pay down its subordinated debt, 35% to fund new drilling at Basing, and 20% for working capital.

Please refer to “*Events after the Reporting Period*” in this MD&A for additional disclosures in respect of the impact of the outbreak of novel coronavirus disease (the “**COVID-19**”).

SELECTED QUARTERLY INFORMATION

Daily Average Production	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Natural gas (mcf/d)	11,344	12,607	13,518	14,158	12,977	14,357	14,490	11,912
Crude oil (bbls/d)	81	76	65	78	56	0	48	80
NGLs and condensate (bbls/d)	99	107	90	106	85	92	92	113
Total production (boe/d)	2,071	2,284	2,408	2,544	2,304	2,485	2,554	2,178
Daily Average Trading								
Natural gas (boe/d)	34	33	10	88	42	30	12	48
Daily Average Sales (boe/d)	2,105	2,317	2,418	2,631	2,346	2,515	2,566	2,226
Financial								
C\$ 000s except share amounts	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Production revenue	5,051	4,909	4,954	4,309	2,991	2,740	3,229	4,897
Net trading revenue	(1)	—	2	11	(2)	(1)	—	12
Royalties	(532)	(75)	(863)	(609)	(202)	847	(788)	(1,119)
Operating costs	(3,607)	(3,742)	(3,624)	(3,756)	(3,534)	(1,824)	(1,760)	(1,510)
Operating netback ⁽¹⁾	913	1,092	469	(44)	(747)	1,761	681	2,280
Net income (loss)	1,507	(1,925)	(2,842)	(13,009)	(3,460)	(1,569)	(3,813)	(34,671)
Net working capital ⁽²⁾	(12,572)	(8,153)	(31,512)	(29,938)	(5,135)	(4,111)	(28,122)	(26,646)
Total assets	47,898	42,205	43,425	44,667	54,601	56,162	57,283	59,064
Capital expenditures ⁽³⁾	2,918	126	91	1,349	400	128	20	575
Income (loss) per share (basic & diluted)	0.00	(0.01)	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)	(0.12)

- (1) Operating netback is defined as revenue less royalties, trading cost and operating costs. Operating netback is a non-IFRS financial measure. See “Non-IFRS Financial Measures” for further information.
- (2) Net working capital consists of current assets less current liabilities. As at Q1 2021, Q4, 2020, Q1 2020 and Q4 2019, net working capital includes approximately C\$24 million of long term debt which has been reclassified as current, as the Company was not in compliance with certain covenants of its subordinated debt facility at period end.
- (3) Capital expenditures consist of total expenditures for property, plant and equipment plus exploration and evaluation assets, excluding changes in non-cash working capital.

Summary

The Company’s total production is impacted by seasonal fluctuations experienced in western Canada. During the Canadian winter (October – March), demand for gas is highest as it is used for heating and power generation. The market price for natural gas is cyclical and follows demand, with prices historically strongest in the winter, and weakest in summer. Since the third quarter of 2019 when the Company had shut-in half of its wells in response to low prices, production has averaged approximately 2,300 boe/d. Production has declined throughout 2021 reflecting natural declines and facility constraints. Notwithstanding the lower production, production revenue in the current quarter was consistent with the prior quarters of 2021 due to higher prices.

In the third quarter of 2020, operating costs increased with the start of production at Voyager and commencement of the Jixing Gas Handling and Voyager Compression agreements (refer to Note 26 of the 2020 Audited Financial Statements).

The Company's higher net loss experienced in the second and fourth quarters of 2019, and the fourth quarter of 2020 is attributable to impairment losses and write-offs recognised during these periods. These impairment losses are non-cash charges resulting from assessments which indicated the carrying costs of the Company's assets exceed their estimated future recoverable amounts (refer to Note 18 of the 2020 Audited Financial Statements). The net income realized in the current quarter is due to the C\$4 million recovery of past impairment at Basing and Voyager due to increased commodity prices.

RESULTS OF OPERATIONS

Daily Production and Sales Volumes

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

	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Production						
Natural gas (mcf/d)	11,344	12,977	(13%)	12,581	13,990	(10%)
Oil (bbl/d)	81	56	45%	74	35	112%
NGLs (bbl/d)	29	23	22%	29	29	(1%)
Condensate (bbl/d)	70	62	14%	71	61	16%
Total production (boe/d)	2,071	2,304	(10%)	2,271	2,457	(8%)
Trading						
Natural gas (mcf/d)	204	255	(20%)	156	171	(9%)
Total trading (boe/d)	34	42	(20%)	26	29	(9%)
Total sales volume (boe/d)	2,105	2,346	(10%)	2,297	2,485	(8%)

Total sales volume for the three and nine months ended September 30, 2021 was 10% and 8% lower respectively than the comparative periods in 2020 as declines in natural gas offset higher oil and condensate production. On an absolute boe/d basis, total trading volume for the three and nine months ended September 30, 2021 were consistent with the comparative periods in 2020.

Natural gas liquids (“NGLs”) and condensate production are by-products of natural gas. The amount of NGL and condensate production varies for each well, and their production rates as a percentage of natural gas production can change over time. On an absolute boe/d basis, NGL production for the three and nine months ended September 30, 2021 was consistent with the comparative periods in 2020. Condensate production for both the three and nine months ended September 30, 2021 was higher than the comparative periods, reflecting the higher condensate yields realized from two Basing wells which were shut-in until the third quarter of 2020.

Oil production for the three and nine months ended September 30, 2021 were higher than the comparative periods in 2020, as the Company shut-in production in March 2020 in response to the collapse in oil prices following the onset of the COVID-19 pandemic. The wells remained shut-in through the second quarter of 2020, and resumed production in July 2020.

Revenue

C\$ 000s	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Production						
Natural gas	3,850	2,391	61%	11,734	7,533	56%
Crude oil	574	233	146%	1,421	518	174%
NGLs	85	40	114%	241	96	152%
Condensate	541	327	65%	1,518	813	87%
Total production revenue	<u>5,051</u>	<u>2,991</u>	<u>69%</u>	<u>14,915</u>	<u>8,960</u>	<u>66%</u>
Trading						
Natural gas trading revenue	72	48	51%	144	96	50%
Natural gas trading cost	(73)	(50)	47%	(143)	(99)	45%
Total trading revenue	<u>(1)</u>	<u>(2)</u>	<u>43%</u>	<u>1</u>	<u>(3)</u>	<u>129%</u>
Other income	<u>4</u>	<u>34</u>	<u>(89%)</u>	<u>31</u>	<u>117</u>	<u>(73%)</u>
Total revenue	<u>5,054</u>	<u>3,023</u>	<u>67%</u>	<u>14,947</u>	<u>9,074</u>	<u>65%</u>

Total production revenue for the three and nine months ended September 30, 2021 increased 69% and 66% respectively over the comparative periods in 2020 reflecting stronger commodity prices. Oil revenues are significantly higher than the prior year reflecting the shut-in of production in March 2020. Crude oil prices have strengthened since the first quarter of this year, as global demand has increased with the elimination of movement travel restrictions implemented in 2020 in response to the COVID-19 pandemic. Pricing for NGL and condensate, which are correlated to crude oil, have strengthened as well.

Trading revenue for the three and nine months ended September 30, 2021 was consistent with the comparative quarters in 2020, reflecting the small quantities of gas which was traded in both periods. Other income for both the three and nine months ended September 30, 2021 is lower than the comparative periods reflecting lower overriding royalty revenues.

Commodity prices

	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Natural gas (C\$/mcf)						
Average market price (<i>AECO</i>)	3.67	2.20	67%	3.16	1.99	59%
Average trading price	2.44	2.00	22%	3.38	1.98	71%
Average trading cost price	3.86	2.29	68%	3.36	2.14	57%
Average sales price	3.91	2.19	79%	3.31	2.09	58%
Crude oil (C\$/bbl)						
Average market price (<i>Edmonton Par</i>)	83.16	49.74	67%	75.67	43.67	73%
Average sales price	76.93	40.11	92%	70.06	54.76	28%
Sales/market differential	(7%)	(19%)		(7%)	25%	
NGLs (C\$/bbl)						
Average market price (<i>Propane/Butane</i>)	55.74	14.23	292%	39.80	18.05	120%
Average sales price	32.52	20.55	58%	30.81	12.05	156%
Sales/market differential	(42%)	44%		(23%)	(33%)	
Condensate (C\$/bbl)						
Average market price (<i>Pentane Plus</i>)	86.99	49.81	75%	80.66	47.46	70%
Average sales price	83.84	51.91	62%	78.53	48.91	61%
Sales/market differential	(4%)	4%		1%	3%	

The increase in realized gas price sales for the three and nine months ended September 30, 2021 over the comparative periods in 2020 is attributable to stronger AECO market pricing. In periods of extreme weakness in the AECO market, the Company shut-in its production and traded gas on the spot market to meet its forward sales obligations. The average trading price is a function of the gains realized on the quantity and price of gas traded over a given time to meet its forward sales obligations, and therefore not directly comparable to prior periods.

NGL production is tied to natural gas production. The Company's natural gas wells produce varying amounts of NGLs (propane and butane), which are sold at different prices in the market. As some wells are shut-in, the NGL production matrix is impacted, resulting in a changing realized price dependent on the composition of NGLs. Generally the more butane produced, the higher the realized price for NGLs. For the nine months ended September 30, 2021 and 2020, realized NGL prices were significantly below average market prices as the Company's NGLs were largely comprised of propane until the fourth quarter of 2020, when the Company resumed production from two wells in the Basing area which are butane weighted.

The Company's realized condensate and crude oil prices for the three and nine months ended September 30, 2021 were consistent with the average market prices over the same periods. Variations from the benchmark are a function of product sales occurring periodically over the quarter and year, compared to the average daily reference price.

Royalties

C\$ 000s	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Natural gas, NGLs and condensate	357	162	121%	1,130	71	1,492%
Crude oil	174	40	336%	338	72	370%
Total royalties	532	202	163%	1,469	143	927%
Effective average royalty rate	11%	7%	56%	10%	2%	517%

In Alberta, royalties are set by a sliding scale formula containing separate elements that account for market price and well production. Royalty rates will fluctuate to reflect changes in production rates, market prices and cost allowances. On a "per-well" basis, for the three and nine months ended September 30, 2021 and 2020, the Company's base royalty rate for natural gas ranged from 5% to 21%, the base royalty rate for NGLs (propane and butane) was 30% and the base royalty rate for condensate and crude oil was 40%. Effective royalty rates can differ from the base rates if the production qualifies for any cost allowances which offset the base amount payable. In June 2021, Company received a Gas Cost Allowance ("GCA") credit of C\$0.6 million following a government re-assessment of the 2020 royalties paid by the Company from the government. The June 2020 the Company's GCA credit was C\$1 million, which resulted in a recovery of royalties in both comparative periods. The Company forecasts its effective royalty rate will range between 15–20% for the remainder of 2021.

Operating Costs

C\$ 000s	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Natural gas, NGLs and condensate	3,449	3,467	(1%)	10,616	6,964	52%
Crude oil	158	67	135%	358	154	132%
Total operating costs	<u>3,607</u>	<u>3,534</u>	<u>2%</u>	<u>10,974</u>	<u>7,118</u>	<u>54%</u>
Unit Cost (C\$/boe)						
Natural gas, NGLs and condensate	18.85	16.77	12%	17.71	10.50	69%
Crude oil	17.63	16.26	8%	17.63	16.26	8%
Average cost	<u>18.93</u>	<u>16.67</u>	<u>14%</u>	<u>17.70</u>	<u>10.58</u>	<u>67%</u>

Total operating costs (“**opex**”) for natural gas, NGLs and condensate for the nine months ended September 30, 2021 were 54% higher than the comparative period in 2020, reflecting new gas transport and compression obligations tariff pursuant to the Jixing Gas Handling and Voyager Compression Agreements (as defined in Note 26 of the 2020 Audited Financial Statements), which commenced with the commissioning of Voyager in June 2020. Opex for natural gas, NGLs and condensate for the three months ended September 30, 2021 was consistent with the comparative period in 2020. The increase in crude oil opex for the three and nine months ended September 30, 2021 over the comparative periods is a function of the increase in production over the same periods.

General and Administrative Costs (“G&A”)

C\$ 000s	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Staff costs	173	215	(19%)	569	1,107	(49%)
Directors fees	361	(26)	1,489%	580	130	346%
Accounting, legal and consulting fees	258	105	146%	642	629	2%
Office	32	10	223%	88	45	96%
Share-based expense	29	46	(36%)	88	77	15%
Other	32	49	(35%)	104	197	(47%)
Total G&A costs	886	399	122%	2,071	2,185	(5%)
Capitalized staff costs	132	107	24%	308	380	(19%)

Total general and administrative (“G&A”) costs for the three months ended September 30, 2021 were 122% higher than the comparative period in 2020 attributable to higher accounting and legal fees incurred for the special general meeting called to approve the placing of 55 million common shares subscribed by Dalian (refer to Note 13 of the Financial Statements), and higher director compensation in respect of the Phantom Unit Plan reflecting the increase in price of the Company’s common shares in the current quarter (refer to Note 19 of the 2020 Audited Financial Statements). Staff cost reductions were primarily realized from a 40% reduction in headcount, which is estimated to reduce staff costs by approximately C\$500k on an annualized basis.

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

The Company uses the fair-value method for the determination of non-cash related share-based payments expense. During the second quarter of 2020, 3.78 million stock options were granted to employees at an exercise price of HK\$0.52 per option. This was the initial award of options issued under the Company’s stock option plan. Pursuant to this initial grant, the Company recognized C\$88k of share-based expense in the nine months ended September 30, 2021 (2020: C\$77k).

Finance Expenses

C\$ 000s	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Interest expense and financing costs:						
Subordinated debt	1,014	856	19%	2,996	2,689	11%
Right of use assets and leases	75	55	37%	220	169	30%
Commitment charges	29	—	100%	65	352	(81%)
Other financing costs and bank charges	11	136	(92%)	19	168	(89%)
Accretion expenses:						
Decommissioning liabilities	(0)	1	116%	31	18	73%
Shareholder loans	32	27	18%	46	65	(29%)
Amortization of debt issuance costs	126	141	(11%)	377	392	(4%)
Loss (gain) on foreign exchange	<u>(1)</u>	<u>—</u>	<u>100%</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total finance expenses	<u>1,286</u>	<u>1,216</u>	<u>6%</u>	<u>3,754</u>	<u>3,853</u>	<u>(3%)</u>

For the three and nine months ended September 30, 2021 and 2020, interest expense was incurred from the Company's subordinated debt and capitalized leases. Following the restructuring of the Company's subordinated debt in April 2020, the annualized interest rate increased from 12% to 16%. The rate can be reduced to 12% and 10% if the Company achieves certain benchmarks in future periods.

Commitment charges are primarily attributable to one-time fees of C\$352k pursuant to the cancellation of a warrant subscription agreement on January 24, 2020. For the three and nine months ended September 30, 2021 and 2020, accretion expenses were incurred from decommissioning liabilities and shareholder loans.

Amortization of debt issuance costs includes legal fees, commissions and commitment fees which were incurred for the closing and subsequent amendments to the subordinated debt facility (refer to Note 13 to the 2020 Audited Financial Statements). These costs are capitalized against the debt, and amortized over the term. The reduction in subordinated debt issuance costs realized in the three and nine months ended September 30, 2021 over the comparative periods in 2020 is attributable to fees totaling C\$0.2 million incurred for the April 2020 restructuring.

Depletion, Depreciation and Amortization (“DD&A”)

<i>C\$ 000s except per unit costs</i>	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Depletion	1,023	977	5%	3,341	3,119	7%
Depreciation	9	9	3%	28	25	13%
Amortization of right of use assets	<u>190</u>	<u>146</u>	<u>30%</u>	<u>555</u>	<u>472</u>	<u>18%</u>
Total DD&A	<u>1,223</u>	<u>1,132</u>	<u>8%</u>	<u>3,925</u>	<u>3,616</u>	<u>9%</u>
Per boe	<u>6.42</u>	<u>5.34</u>	<u>20%</u>	<u>6.33</u>	<u>5.37</u>	<u>18%</u>

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

Depletion is a function of both production and the capitalized value of assets subject to depletion. The increase in DD&A on a per boe basis for both the three and nine months ended September 30, 2021 over the comparative periods in 2020 is attributable to the reduction in Company’s reserves over the same period.

Impairment Losses (Recovery) and Write-offs

<i>C\$ 000s</i>	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
E&E write-offs	32	—	100%	32	219	(85%)
E&E impairment	—	—	—	—	136	(100%)
PP&E impairment (recovery)	<u>(4,018)</u>	<u>—</u>	<u>(100%)</u>	<u>(4,018)</u>	<u>126</u>	<u>(3,289%)</u>
Total impairment and write-offs	<u>(3,986)</u>	<u>—</u>	<u>(100%)</u>	<u>(3,986)</u>	<u>481</u>	<u>(929%)</u>

Impairment is incurred if the estimated recoverable amount of an asset is lower than its carrying amount. Recovery of previously booked PP&E impairment is incurred if the estimated recoverable amount of an asset exceeds its carrying amount. In addition, where a non-financial asset does not generate largely independent cash inflows, the Company is required to perform its test at a cash generating unit (“CGU”), which is the smallest identifiable grouping of assets that generates largely independent cash inflows. E&E write-offs are attributable to land lease expires, when a lease term is completed the Company writes-off any remaining capitalized value in respect of the asset. Refer to Note 4 in the 2020 Audited Financial Statements for additional disclosures in respect of the Company’s significant accounting policies.

At September 30, 2021, the Company identified indicators of impairment recovery in its PP&E assets in the Basing and Dawson CGU’s attributable to increases in commodity prices, and recovered C\$3.7 million in respect of Basing and C\$0.3 million for Dawson (refer to Note 7 in the Financial Statements). In the first quarter of 2020, the Company identified indications of impairment at its Dawson CGU and wrote the E&E and PP&E carrying cost down to the estimated fair value as at March 31, 2020 (refer to Note 18 in the 2020 Audited Financial Statements).

Income (Loss) and Comprehensive Income (Loss)

<i>C\$ 000s</i>	Three months ended			Nine months ended		
	September 30,			September 30,		
	2021	2020	Change	2021	2020	Change
Income (loss) and comprehensive income (loss)	<u>1,507</u>	<u>(3,460)</u>	<u>144%</u>	<u>(3,260)</u>	<u>(8,322)</u>	<u>(61%)</u>
Total income (loss) and comprehensive income (loss)	<u>1,507</u>	<u>(3,460)</u>	<u>144%</u>	<u>(3,260)</u>	<u>(8,322)</u>	<u>(61%)</u>

Income (loss) and comprehensive income (loss) for the three and nine months ended September 30, 2021 was higher than the comparative periods in 2020, reflecting the C\$4 million impairment recovery booked during the current quarter, and higher revenues experienced during 2021 attributable to strong commodity prices.

CAPITAL EXPENDITURES

C\$ 000s	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
PP&E						
Production facilities	10	185	(94%)	13	202	(93%)
Workovers	(11)	—	(100%)	27	—	100%
G&A costs capitalized	<u>88</u>	<u>215</u>	<u>(59%)</u>	<u>264</u>	<u>215</u>	<u>23%</u>
Total PP&E	<u>88</u>	<u>400</u>	<u>(78%)</u>	<u>305</u>	<u>417</u>	<u>(27%)</u>
E&E Assets						
G&A costs capitalized	40	—	100%	44	166	(73%)
Other	<u>2,790</u>	<u>30</u>	<u>9,200%</u>	<u>2,789</u>	<u>—</u>	<u>100%</u>
Total E&E	<u>2,830</u>	<u>30</u>	<u>9,333%</u>	<u>2,833</u>	<u>166</u>	<u>1,606%</u>
Total PP&E and E&E	2,918	430	579%	3,137	583	438%
Change in non-cash working capital	<u>2,289</u>	<u>760</u>	<u>201%</u>	<u>1,279</u>	<u>313</u>	<u>308%</u>
Total	<u>5,206</u>	<u>1,190</u>	<u>338%</u>	<u>4,416</u>	<u>896</u>	<u>393%</u>

2021 total PP&E and E&E capital expenditures (“**capex**”) for the nine months ended September 30, 2021 was C\$3.1 million, compared to C\$0.58 million in same period in 2020 attributable to costs associated with the new Basing well which commenced drilling in September 2021. The well is anticipated to be completed before the end of the year with total costs estimated at approximately C\$7.5 million. The Company has capitalized a total of C\$0.3 million of G&A during 2021 (2020: C\$0.17 million), in accordance with the Company’s accounting policies (refer to Note 4 in the 2020 Audited Financial Statements).

LIQUIDITY AND CAPITAL RESOURCES

Capital management

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

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

Capital structure of the Company

The Company's capital structure is as follows:

	As at September 30, 2021	As at December 31, 2020
<i>C\$ 000s</i>		
Long term debt ⁽¹⁾	25,931	1,886
Other liabilities	841	351
Lease liabilities	2,633	2,632
Net working capital deficit ⁽²⁾	<u>12,572</u>	<u>29,938</u>
Net debt	41,976	34,807
Shareholders' equity ⁽³⁾	<u>1,989</u>	<u>5,161</u>
Total capital	<u>43,966</u>	<u>39,968</u>
Gearing ratio⁽⁴⁾	<u>95 %</u>	<u>87 %</u>

Notes:

- 1 This is the fair value of the long term debt.
- 2 Net working capital consists of current assets less current liabilities.
- 3 As at September 30, 2021 and the date of this MD&A, the Company has 361,886,520 common shares issued and outstanding and 8 million warrants issued with a strike price of HK\$3.16 per warrant and 3.78 million stock options issued with a strike price of HK\$0.52 per option.
- 4 Gearing Ratio is defined as net debt as a percentage of total capital.

2020 working capital deficit includes C\$24 million of long term debt which has been reclassified as current as at as the Company was not in compliance with certain covenants of its subordinated debt facility at March 31, 2021. These breaches were subsequently waived by the lender pursuant to the 2021 Restructuring (refer to Note 10 of the Financial Statements) and the debt has been reclassified to long term at September 30, 2021.

The completion of the equity placings for 71 million common shares at a price of HK\$0.80 per share is expected on or before November 30, 2021, which will provide gross proceeds of a minimum C\$9.1 million and will reduce the Company's gearing ratio (refer to Note 13 in the Financial Statements)

Performance services guarantee ("PSG") facility

On April 25, 2018, the Company obtained a PSG facility from Economic Development Canada ("EDC") totaling C\$4.4 million. On June 28, 2019 the aggregate PSG was reduced to C\$2.5 million. Under the terms of the PSG facility, EDC will guarantee qualifying letters of credit ("L/C") on behalf of the Company. Previously, these L/C's were cash collateralized, following approval by the EDC the requirement of the Company to hold cash to underwrite the L/C is relieved for the duration of the PSG approval. Under the terms of the PSG facility, the L/C guarantee period is the lesser of one year or the term of the L/C if less than 12 months. The guarantee can be renewed annually for long term L/C's subject to subsequent approval by the EDC. The PSG facility has a 12 month term expiring September 21, 2022, and must be renewed annually. As at September 30, 2021 the Company has PSG coverage for the following L/C's:

Amount	Expiry
C\$1,392,000	June 14, 2022
C\$408,158	March 31, 2022

Capital resources

The Company operates in a capital intensive industry. The Company's liquidity requirements arise principally from the need for financing the expansion of its exploration and development activities, acquisition of land leases and petroleum and natural gas licences. The Company's principal sources of funds have been proceeds from bank borrowings, equity financings, shareholder loans and cash

generated from operations. The Company's liquidity primarily depends on its ability to generate cash flow from its operations and to obtain external financing to meet its debt obligations as they become due, as well as the Company's future operating and capital expenditure requirements.

On December 23, 2020 the Company issued 60 million common shares at a price of HK\$0.30 per share for gross proceeds of HK\$18 million (approximately C\$3 million assuming HK\$:C\$ exchange rate of 0.16:1) (the “**Subscription**”). Net proceeds from the Subscription were used for the expansion of its existing business and general working capital.

On June 30, 2021, the Company and lender agreed to restructure the loan agreement (the “**2021 Restructuring**”). Under the terms of the Restructuring, financial covenants in respect of net debt to total proved reserves and net debt to TTM EBITDA (as defined in Note 10 of the Financial Statements) have been waived for the remainder of 2021, and will be reinstated starting March 31, 2022. Financial covenants in respect of working capital have been eliminated for the remainder of the loan. A funding covenant has been added whereby the Company must secure additional capital in the form of new equity for a cumulative amount equal to or greater than C\$8 million on or before November 30, 2021. The Company must make a C\$4.4 million principal payment on or before November 30, 2021 (the “**2021 Principal Payment**”).

To satisfy the C\$8 million funding and 2021 Principal Payment covenants, the Company plans to complete equity placings of up to 71 million common shares to be issued at a minimum of HK\$0.80 per share for gross proceeds of a minimum of C\$9.1 million. The placings are expected to close on or before November 30, 2021 (refer to Note 13 of the Financial Statements).

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

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

Use of proceeds from the Subscription

C\$ 000

Business objective as stated in the announcement ⁽¹⁾	% of total net proceeds	Planned use of net proceeds from the Closing Date to September 30, 2021 ⁽²⁾	Actual use of net proceeds during the period from the Closing Date to September 30, 2021 ⁽²⁾	Proceeds unused
Expansion of existing business ⁽³⁾	33%	1,000.0	1,000.0	—
General working capital	<u>67%</u>	<u>2,000.0</u>	<u>2,000.0</u>	<u>—</u>
Total	<u>100%</u>	<u>3,000.0</u>	<u>3,000.0</u>	<u>—</u>

Notes:

- (1) Refer to the Company's announcement dated October 26, 2020.
- (2) The Subscription was closed on December 23, 2020 (the "Closing Date").
- (3) Activities associated with the expansion of existing business includes facility optimisation and production de-bottlenecking to enhance natural gas production from the Company's Basing area.

SHARES, WARRANTS AND STOCK OPTIONS OUTSTANDING

Common Shares

On December 23, 2020, the Company completed a private placement issuing 60 million shares at a price of HK\$0.30 per share for gross proceeds of HK\$35.4 million (approximately C\$3.0 million). On May 14, 2019, the Company completed a private placement issuing 23.6 million shares at a price of HK\$1.50 per share for gross proceeds of HK\$35.4 million (approximately C\$6.0 million). As at September 30, 2021 and as at the date of this MD&A, the Company has 361,886,520 common shares outstanding (2020: 301,886,520).

On June 9, 2021 the Company entered into a subscription agreement with Dalian Yongli Petrochemical Ltd. (“**Dalian**”), pursuant to which the Company has conditionally agreed to allot and issue, and Dalian has conditionally agreed to subscribe for 55 million common shares at a minimum price of HK\$0.80 per common share. As Dalian is a connected person (as defined in the Listing Rules) of the Company, the subscription agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. Independent Shareholders’ approval was obtained at a special general meeting held on October 15, 2021. The Dalian placing is anticipated to close on or before November 30, 2021. Please refer to the announcement of the Company dated June 9, 2021, June 10, 2021, July 21, 2021, September 3, 2021, October 18, 2021 and October 28, 2021 respectively and circular of the Company dated September 17, 2021 for additional information on the Dalian equity subscription.

On September 3, 2021, the Company entered into a subscription agreement with Jilin Nuoshida Energy Investment Co., Ltd. (“**Jilin**”), pursuant to which the Company has conditionally agreed to allot and issue, and Jilin has conditionally agreed to subscribe for 16 million common shares at a price of HK\$0.80 per common share under General Mandate (as defined in the Listing Rules). The Jilin placing is anticipated to close on or before November 30, 2021. Please refer to the announcement of the Company dated September 3, 2021, September 30, 2021 and October 28, 2021 respectively for additional information on the Jilin equity subscription.

Warrants

On August 13, 2018, the Company issued 8.0 million warrants for total consideration of C\$0.75 million. The warrants have an exercise price of HK\$3.16 per warrant and a term of 5 years. No warrants have been exercised for the nine months ended September 30, 2021 and 2020, and up to the date of the MD&A. As at September 30, 2021 and as at the date of this MD&A, the Company has 8 million warrants outstanding (2020: 8 million).

Stock Options

The Company has a stock option plan which was approved and adopted by the shareholders of the Company by ordinary resolution passed on June 8, 2018 (“**Stock Option Plan**”). On May 18, 2020, the Company issued 3.78 million options with an exercise price of HK\$0.52 per option and a term of 5 years. The options vest equally over a 3 year period, with the first tranche vesting on the first anniversary of the award, and the second and third tranches vesting equally on the second and third anniversary respectively. As at September 30, 2021 and as at the date of this MD&A, the Company has 3.78 million options outstanding (2020: 3.78 million).

COMMITMENTS

Commitments and contingencies exist under various agreements and operations in the normal course of the Company’s business. Refer to Note 21 of the Financial Statements and Note 28 of the 2020 Audited Financial Statements for disclosure of the Company’s commitments and contingencies.

DIVIDEND

The Board did not approve the payment of a dividend for the nine months ended September 30, 2021 and 2020.

RELATED PARTY TRANSACTIONS

Refer to Note 19 of the Financial Statements and Note 26 of the 2020 Audited Financial Statements for disclosure of the Company's related party transactions.

OFF-BALANCE SHEET TRANSACTIONS

The Company was not involved in any off-balance sheet transactions during the nine months ended September 30, 2021 and 2020.

PLEDGED ASSETS

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

CONTINGENT LIABILITIES

As at September 30, 2021 and up to the date of this MD&A, the Company had no material undisclosed contingent liabilities.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save as disclosed in this MD&A, the Company has neither any other significant investments nor significant acquisitions and disposals of the relevant subsidiaries, associates and joint ventures during the nine months ended September 30, 2021 and up to the date of this MD&A.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

EVENTS AFTER THE REPORTING PERIOD

COVID-19

The global impact of COVID-19 has resulted in significant volatility in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. In addition, there has been a significant drop in the price of oil in global and Canadian markets. These factors may have a

negative impact on the Company's operations and its ability to raise financing in the near future or on terms favourable to the Company. The potential impact that COVID-19 will have on the Company's business or financial results cannot be reasonably estimated up to the date of this announcement.

FINANCIAL RISK MANAGEMENT

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company's financial risks are discussed in Note 27 of the 2020 Audited Financial Statements.

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

The Company did not enter into any financial derivatives contracts for the nine months ended September 30, 2021 and 2020. For the nine months ended September 30, 2021, the Company experienced a foreign exchange loss of C\$0.2k (2020: gain of C\$2k). 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.

Periodically, the Company has entered into fixed price physical commodity contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the financial statements. During the year ended December 31, 2020, the Company entered into the following fixed price physical commodity contracts to forward sell natural gas at a fixed daily volume and fixed price per gigajoule ("GJ"):

Commodity	Term	Quantity	Price
Natural gas	January 1, 2020 to October 31, 2020	2,000 GJ/day	C\$1.80 per GJ
Natural gas	January 1, 2020 to October 31, 2020	1,000 GJ/day	C\$1.7925 per GJ
Natural gas	January 1, 2020 to October 31, 2020	5,000 GJ/day	C\$1.80 per GJ
Natural gas	May 1, 2020 to October 31, 2020	2,000 GJ/day	C\$2.085 per GJ

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

RELATIONSHIPS WITH STAKEHOLDERS

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

HUMAN RESOURCES

The Company had 6 employees as at September 30, 2021 (2020: 10). The employees of the Company are employed under employment contracts which set out, among other things, their job scope and remuneration. Further details of their employment terms are set out in the employee handbook of the Company. The Company determines the employees' salaries based on their job nature, scope of duty, and individual performance. The Company also provides reimbursements, allowances for site visits and a discretionary annual bonus for the employees. Employee compensation for the nine months ended September 30, 2021 totaled C\$0.6 million (2020: C\$1.2 million).

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described in Note 5 of the 2020 Audited Financial Statements.

CHANGES IN ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable IFRSs as issued by the IASB. The IASB has issued a number of new and revised IFRSs effective January 1, 2020. For the purpose of preparing the financial statements, the Company has adopted all applicable new and revised IFRSs for the nine months ended September 30, 2021 and year ended December 31, 2020 (refer to Notes 4(r) and 4(s) of the 2020 Audited Financial Statements).

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

For the period starting January 1, 2021 and ending September 30, 2021, Mr. Pingzai Wang in the capacity as Chief Executive Officer (“**CEO**”), and Mr. Jesse Meidl, Chief Financial Officer (“**CFO**”) of the Company have designed, or caused to be designed under their supervision, disclosure controls and procedures (“**DC&P**”) to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company’s CEO and CFO by others, particularly during the period in which the annual and quarterly filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

For the period starting January 1, 2021 and ending September 30, 2021, Mr. Pingzai Wang and Mr. Jesse Meidl, in their capacity as CEO and CFO of the Company respectively, have designed or caused to be designed under their supervision, internal controls over financial reporting (“**ICFR**”) to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. In reaching a reasonable level of assurance, management necessarily is required to apply its judgment in evaluating the cost/benefit relationship of possible controls and procedures.

There were no changes made to Persta’s internal controls over financial reporting during the period beginning on January 1, 2021 and ending on September 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Management has concluded that Persta’s internal control over financial reporting was effective as at September 30, 2021. This assessment was based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

RISK FACTORS AND RISK MANAGEMENT

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

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

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

Persta monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations, royalty regime or taxation. In addition, Persta maintains a level of liability, business interruption and property insurance

which is believed to be adequate for the Company's size and activities, but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims. See "*Forward-Looking Information*" in this MD&A and "*Risk Factors*" in the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2020. The AIF is available at www.sedar.com.

IMPACT OF NEW ENVIRONMENTAL REGULATIONS

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

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

NON-IFRS FINANCIAL MEASURES

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

Operating netback

C\$ 000s	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Commodity sales from production	5,052	2,991	69%	14,915	8,960	66%
Net trading revenue	(1)	(2)	37%	1	(3)	129%
Royalties	(531)	(202)	163%	(1,469)	(143)	927%
Operating costs	(3,607)	(3,534)	2%	(10,974)	(7,118)	54%
Operating netback	913	(747)	222%	2,473	1,696	46%

Adjusted EBITDA

C\$ 000s	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	Change	2021	2020	Change
Commodity sales from production	5,052	2,991	69%	14,915	8,960	66%
Net trading revenue	(1)	(2)	37%	1	(3)	129%
Royalties	(531)	(202)	163%	(1,469)	(143)	927%
Operating costs	(3,607)	(3,534)	2%	(10,974)	(7,118)	54%
General and administrative costs ⁽¹⁾	(857)	(354)	142%	(1,983)	(2,108)	(6%)
Other income	4	34	(89%)	31	117	(73%)
Adjusted EBITDA	60	(1,067)	106%	521	(295)	(276%)

(1) General and administrative costs exclude share-based expenses.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability. The Board has adopted the principles and the code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) to ensure that the Company’s business activities and decision making processes are regulated in a proper and prudent manner. The Company has complied with the relevant code provisions contained in the CG Code during the nine months ended September 30, 2021 (the “Reporting Period”).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company’s securities. Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Reporting Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

REVIEW OF THE INTERIM RESULTS

The Company established an audit and risk committee of the Company (the “**Audit and Risk Committee**”) with written terms of reference in compliance with the CG Code. As at the date of this announcement, the Audit and Risk Committee comprises three independent non-executive Directors, namely Mr. Peter David Robertson (Chairman), Mr. Richard Dale Orman and Mr. Larry Grant Smith. The Audit and Risk Committee has reviewed the Company’s interim results for the nine months ended September 30, 2021 and has also discussed with management the internal control, the accounting principles and practices adopted by the Company. The Audit and Risk Committee is of the opinion that the interim results have been prepared in accordance with the applicable accounting standards, laws and regulations and the Listing Rules and that adequate disclosures have been made.

PUBLICATION OF INFORMATION

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.persta.ca). This announcement is prepared in both English and Chinese and in the event of inconsistency, the English text of this announcement shall prevail over the Chinese text.

SELECTED ABBREVIATIONS

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

Crude oil and natural gas liquids

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

Natural gas

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

Other

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

CONVERSION FACTORS — IMPERIAL TO METRIC

Bbl = 0.1590 cubic metres (m³)

Mcf = 0.0283 cubic metres (103m³)

acres = 0.4047 hectares (ha)

Btu = 1054.615 joules (J)

feet (ft) = 0.3048 metres (m)

miles (mi) = 1.6093 kilometres (km)

pounds (Lb) = 0.4536 kilograms (kg)