2019 Annual Report
'A Transformational Year'

Pieridae's Caroline, Jumping Pound and Waterton Gas Complexes

The Pieridae Story

Pieridae Energy continued to demonstrate strength and resiliency in 2019 in the midst of depressed gas prices, a challenging investment climate and an equally challenging, game-changing acquisition.

This drive to achieve and a 'never-say-die' attitude stems from the individuals who make up the Pieridae team and those who forged the way in the early days going back to 2011 when the company was formed.

If not for a nascent conversation in 2007 with then Encana CEO Randy Eresman, Pieridae might never have been. Back then, Pieridae CEO Alfred Sorensen was progressing the notion of an LNG import facility off B.C.'s West Coast. At a London, UK investors conference, Sorensen had a chance encounter with Eresman where they discussed business and the LNG industry. Something Eresman said prompted Sorensen to think a potentially bigger opportunity lay on the horizon. So, he re-tooled, with the Kitimat Project becoming the first to propose exporting Canadian LNG to Asia.

In the aftermath of selling the Kitimat venture, Sorensen formed Pieridae Energy.

Poised to become the first Canadian company to market LNG off the East Coast to global consumers.

Goldboro LNG site in Nova Scotia

Pieridae is Canada's only independent, publicly traded LNG company, focused on developing the Goldboro LNG Project and export facility off Canada's East Coast. Many key elements are in place: the majority of key permits, a 20-year contract with German utility Uniper to buy half of Goldboro's gas, and US$4.5 billion in potential loan guarantees from the German Government. Pieridae owns and operates natural gas assets across Canada, with a primary focus on our producing assets in Alberta.

The Goldboro LNG Project will be one of Nova Scotia's largest ever mega projects, creating well north of 4,500 jobs during construction, and approximately 200 full-time jobs once the plant is built. During construction, we will increase the population of Guysborough County by more than 50%, so plenty of spin-off benefits and more jobs in catering, laundry services, money for restaurants, gas stations - the list goes on. And back home in Alberta, with the potential for US$1.5 billion German UFK loan guarantee to be used for the investment to develop the natural gas reserves Pieridae owns to supply the first train (or facility) at Goldboro, local service companies in the Foothills and many other suppliers and hundreds of workers will benefit from natural gas development not seen for years.

Goldboro LNG will benefit many other provinces across the country, creating jobs and direct labour through investment in firms that will provide fabrication, build components and other important services. In total, we anticipate investments of hundreds of millions of dollars in Québec, Ontario, Nova Scotia, New Brunswick and Alberta.

Due diligence and hard work continue to move the Goldboro initiative forward toward a positive final investment decision, then construction and the ultimate prize of a fully operational LNG export facility.

Our LNG Project has the added benefit of providing sustainably produced Canadian natural gas to the globe, helping replace higher-GHG intensity fuels such as coal, and giving the world the energy it relies on each and every day to cook our food, heat our homes and provide the fuel we need to live.

Our Supply Portfolio

In addition to our signature project, Pieridae owns and operates natural gas assets across Canada.

Last fall, the company closed a deal to buy all of Shell Canada's Foothills assets. Production for Q4 2019 was 42,137 boe/d:

- 204 mmcf/d of natural gas (34,044 boe/d)
- 5,190 bbl/d of natural gas liquids
- 2,923 bbl/d of condensate

As part of the acquisition, Pieridae also acquired three deep cut, sour gas processing plants: Jumping Pound, Caroline and Waterton, with a combined capacity of 750 mmcf/d. The three plants currently operate with 420 mmcf/d of spare capacity. We also purchased a 14% interest in the Shantz sulphur forming plant, and 1,700 kilometres of pipelines. Pieridae is now the owner or has a working interest in six gas plants and approximately 25 major facilities.

The company has a footprint stretching from Northern Alberta down to the U.S border, nearly one million acres of land, production ranging from 40,000-45,000 boe/d and 3,500 kilometers of pipelines.

The acquisition helps the company secure the majority of the gas needed, when developed, to supply the first train for the Goldboro LNG Project, and Pieridae becomes one of the largest Foothills producers in North America.

In British Columbia, our footprint extends from Fort Nelson in northeastern B.C. down to the Alberta border near Grande Prairie. We have a working interest in 84 wells currently producing natural gas. And in New Brunswick, Pieridae has land holdings of 14,000 acres. In late November of 2018, the coalition government in New Brunswick passed a resolution to end the former regime's three-year-old ban on hydraulic fracturing. Officially, the moratorium remains in place.

Letter to Shareholders

A Transformational Year

Every company needs a vision to be successful. It is only through a strong, unrelenting focus and a resolve to overcome obstacles that your vision is ultimately achieved.

Seven years ago, Pieridae's vision was to build a fully integrated natural gas company from the field to the flange. With our transformational acquisition of extensive Alberta Foothills natural gas assets, that idea took great strides toward becoming a reality.

This primary success of 2019 was all about getting to a critical mass when it came to resources in place, potential drilling locations, gas processing capability and a growth in intellectual capital within the organization. The building blocks are now in place for the Pieridae story and vision to make sense to our stakeholders.

The expertise and knowledge gained through the acquisition cannot be underestimated. We added some 200 strong individuals who were instrumental in safely operating high-performing assets for decades. This new talent pool has allowed us to strengthen many parts of our business, particularly on the engineering side where we took a huge leap forward. The fact we are an engineering related business and gained a significant number of very skilled individuals from Shell, who, not only transformed the way we do our upstream business, but they've also transformed how we are advancing the Goldboro LNG project.

We had a very large demand for capital to complete the acquisition, with a modest balance sheet. Layer in regulatory uncertainty, the political situation that had been created and a lack of access to world markets. Foreign and domestic investors were not that interested in the Canadian market. Yet despite this very tough environment, we were able to complete the transaction, transforming Pieridae into a strong and relevant integrated company with upstream and midstream assets, as well as a solid LNG project.

There were days when some asked the question: 'Could we get this done?' Our partnership with Third Eye Capital to raise the necessary equity and debt, combined with additional support from our key institutional investors as well as insiders, demonstrated we indeed could. This has created a platform for positive cash flow and a much-improved balance sheet to not only fund Pieridae's operations but to continue to do the critical work needed to advance the Goldboro initiative.

In the midst of closing the deal, we were able to keep our larger shareholders engaged and supportive. We continue to appreciate the backing from AIMCo, Electron Capital and Fort Washington. Their support was the critical ingredient that gave us the resilience needed to make it through. We also respect the support of our directors and officers who also stepped up and put in equity to help ensure success.

Pieridae Board Chairman Myron Tétreault:

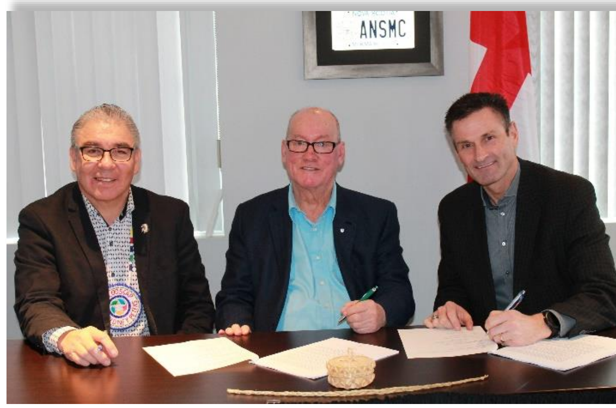
"I always maintained optimism that we would complete the Shell asset acquisition, but there's no question that we were in a very difficult situation. We had to closely manage that and demonstrate a lot of persistence and resilience to get it across the goal line."

Pieridae now has the strength and stability of a strong base business complementing the larger goal of building the Goldboro LNG facility. And let's not forget we have a huge advantage relative to most other LNG projects. We have the ownership of the gas; all of our key approvals, construction permits, environmental permits; we have the customer in Uniper with a 20-year contract; approval in principle for US$4.5 billion in German Government loan guarantees; we have gone as far as we can to date with Enbridge and TC Energy on the transportation with MOUs in place - that's the next piece to finalize. But the accomplishments made over the last number of years position us to be ready to move forward.

2019 Accomplishments

It was very gratifying to begin 2019 by formally announcing the signing of a benefits agreement with the Nova Scotia Mi'kmaq. The agreement means the Mi'kmaq will benefit economically as the Goldboro LNG facility is developed, built and begins operating. We have had further discussions with Mi'kmaq Chief Terry Paul since the agreement signing to discuss how best Pieridae and the Mi'kmaq can work together to achieve mutually beneficial outcomes.

Chief Sidney Peters (left), Chief Terry Paul (centre) and Pieridae Board Chair Myron Tétreault (right) sign the historic agreement.



A spring announcement delivered a strong message of progress for Goldboro LNG with the engagement of respected global firm Kellogg, Brown and Root (KBR) to review our front end engineering and design work for the project, as well as beginning the process of conducting an open-book estimate for the facility work and, finally, delivering a fixed price to design and build the facility. While this work has been delayed due to our focus on closing the Foothills asset acquisition and now as we assess the impacts of the coronavirus on project schedule, all parties remain committed to working through these challenges and moving toward a final investment decision.

In the spirit of reconciliation, we travelled to Stoney Nakoda traditional territory just west of Calgary only hours after announcing the acquisition of all of Shell Canada's Foothills assets. We were there to meet with the Chiefs and others to build trust and respect. We see these relationships as critical to our future success and look forward to continuing to build on these initial efforts as we move our operations forward.

The acquisition itself included approximately 29,000 boe/d of production, three deep cut sour gas processing plants, a 14% interest in the Shantz sulphur forming plant, and 1,700 kilometers of pipelines, giving Pieridae a footprint stretching from Northern Alberta down to the U.S border, nearly one million acres of land, production ranging from 40,000-45,000 boe/d and 3,500 kilometers of pipelines.

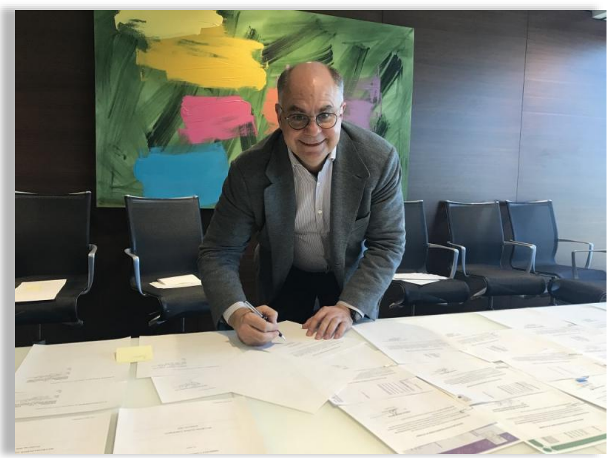
Fundamentally, the acquisition helped the company secure the majority of the gas needed, when developed, to supply the first train for the Goldboro LNG Project, and Pieridae became one of the largest Foothills producers in North America.

Pieridae CEO Alfred Sorensen:

"The acquisition demonstrates solid progress for our flagship Goldboro LNG project. We said we would acquire additional gas supplies for the LNG facility and we have done that. Not only does this deal help us secure the majority of the remaining conventional natural gas supply needed for the first train of the Goldboro LNG project, it makes Pieridae a major player in the Alberta midstream and upstream industry."

Uniper has long been a key, supportive partner with Pieridae, evidenced best by our 20-year contract with them to purchase all of the LNG produced through Goldboro's first train. Last July, we were able to negotiate deadline extensions with Uniper for a Goldboro final investment decision, extended to September 2020, and new deadlines to receive first gas between November 30th, 2024 and May 31st, 2025. Pieridae is currently in negotiations with Uniper to extend the FID deadline to June 2021 and believes it will obtain this extension. As a result of a depressed market and COVID-19 impacts, a final investment decision for the project will be delayed beyond September 30, 2020. A further announcement will be made once COVID-19 impacts and markets stabilize.

After months of very intense work, the Pieridae team and its shareholders were rewarded with the closing of the $190 million Shell Foothills assets acquisition on October 16, 2019. Pieridae gained an extensive drilling inventory including multiple dry gas and liquids-rich gas reservoirs in the Foothills, where we have identified approximately 500 locations. Through this, the company is now in an ideal position to leverage the US$1.5 billion of anticipated German Government-backed loan guarantees for conventional gas supply development. In addition, we are looking to capture value for our conventional gas as markets look for fuels with lower environmental impacts.



It's Official!

Pieridae CEO Alfred Sorensen signs the documents to acquire Shell's Foothills assets.

Adding intellectual capital and leadership continues to be a priority, so we were pleased last fall to announce the appointment of Mark Horrox as an additional independent director. Mark is a Principal at Third Eye Capital Corporation, with 20 years of global experience investing in companies undergoing change or growth.

Pieridae further bolstered its leadership capacity with the appointment of Rob Dargewitcz as Chief Financial Officer. Rob did a stellar job in helping to secure the financing needed to close the transformational Shell Foothills assets acquisition. After helping to raise $10 billion to construct the North West Redwater refinery in Alberta, his skill set is well positioned to bring in the larger financing needed to build Goldboro LNG. We have also strengthened our team in the areas of human resources, communications, engineering and midstream operations.

We continue our diligence post-acquisition in identifying a number of synergies and opportunities to reduce operating expenses as a result of the combination of our prior assets with those acquired in the Shell deal. Initial steps were taken in Q3 and Q4 of 2019 and they continue.

Q4 2019 proved to be a transformational quarter in Pieridae's history with the close of the Foothills natural gas assets acquisition. The immediate impact of growing production, increased sales of natural gas liquids and the growth in third-party processing thanks to our midstream assets are fully evident in our 2019 financial and operational results. Highlights include:

- Total 2019 revenue of $114.4 million. Petroleum and natural gas revenue increased $102.5 million year over year, or 4347%, to $104.9 million in 2019
- Net Operating Income increased year over year from a loss of $0.5 million in 2018 to income of $24.9 million 2019, $24.4 million of which was earned in Q4 2019
- Adjusted Funds Flow From Operations increased from a loss of $4.0 million in Q4 2018 to income of $14.4 million in Q4 2019
- Production increased 241% from 17,509 barrels of oil equivalent per day in Q4 2018 to 42,137 boe/d in Q4 2019
- A dramatic year over year improvement in working capital, from a deficit of $76.0 million in 2018 to a surplus of $19.1 million 2019

Select Consolidated Financial Results

	For the year ended December 31,					
($000s, except per share amounts)		2019		2018		2017
Revenue	$	114,406	$	2,822	$	90
Net operating income (loss) [(1)]	$	24,957	$	(530)	$	(1,459)
Net loss attributable to equity holders	$	71,573	$	34,870	$	8,825
Net loss per common share - basic and diluted	$	0.73	$	0.68	$	0.24
Cash used in operating activities	$	(51,772)	$	(8,407)	$	(10,239)
Adjusted flow of funds from operations [(1)]	$	608	$	(8,530)	$	(6,127)
Capital expenditures	$	169,167	$	981	$	192
Project investment [(1)]	$	178,317	$	9,782	$	6,640
Net working capital (deficit) [(1)]	$	19,105	$	(76,010)	$	10,989
Total assets	$	602,474	$	370,673	$	74,045
Total non-current financial liabilities	$	412,733	$	158,689	$	3,220
Shareholders' equity	$	104,315	$	91,748	$	59,362

(1) non-IFRS measures, see pages 24 & 25 of the Company's MD&A.

Our Commitment

As we experience trying times during this COVID-19 pandemic, companies that stay true to their values and commitments are the ones who will make it through with their trust and respect intact.

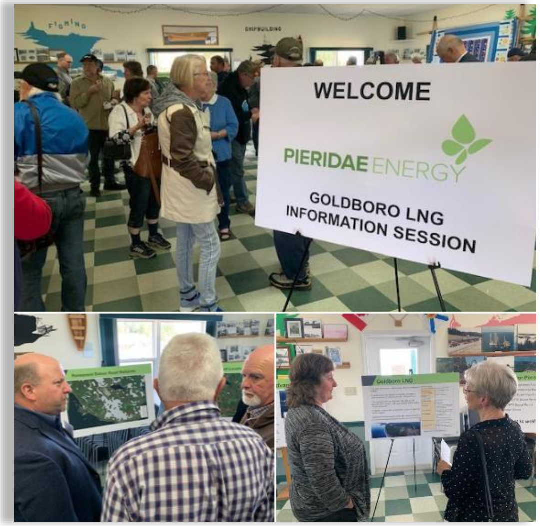
We have to earn and keep – by each of our decisions and actions – the trust of our shareholders, associates and partners as well as that of the communities and indigenous peoples we live and work with. And we will do this by continuing to adhere to Pieridae's commitments of integrity, and a respect for the environment and community.

This focus dovetails nicely into the importance of a company's environmental, social and governance (ESG) performance, which is fast gaining more prominence in the energy sector and the investment community. Our Board and senior leadership have incorporated ESG performance as a key goal for 2020. Pieridae will build on an established, strong ESG framework that allows us to continue to develop, monitor and manage our assets, and measure performance.

But frameworks, metrics and measurement mean very little unless they are backed up with strong relationships. One of the most important being our relationship with First Nations. Our engagement with the Stoney Nakoda was mentioned earlier, as was our dealings with the Mi'kmaq. Pieridae remains committed to actively engaging with all First Nations. Our company has re-positioned the relationship to ensure a sharing of the benefits of the resource. Chiefs and First Nations' businesses want a chance to participate and a level playing field in which to operate. We agree.

This focus of building trust and respect goes hand-in-hand with how we endeavour to work with the stakeholders Pieridae interacts with on a daily basis. It begins with a commitment to being a good neighbour and to working with communities where we live and operate.

Through our Community Liaison Committee, we have solid ties with the local Nova Scotia community where we plan to build the LNG facility. In Alberta, we have continued the strong community practices Shell had in place for decades. Pieridae takes pride in supporting local initiatives such as education through high school STEM scholarships, safety through emergency services, and culture through rodeos.

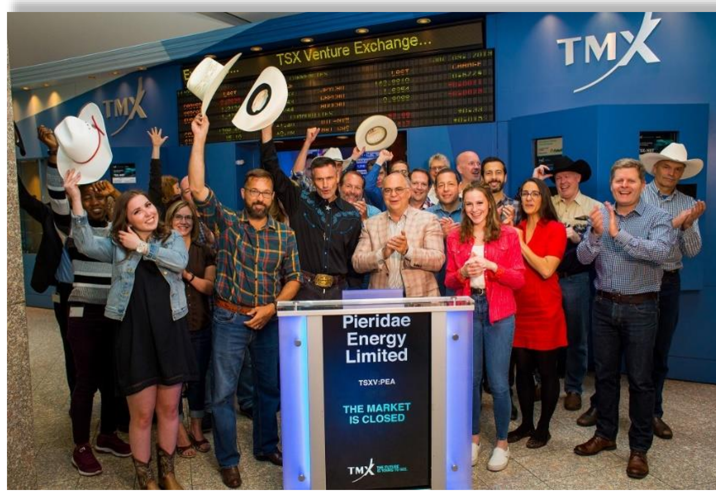


Goldboro LNG Information Session:

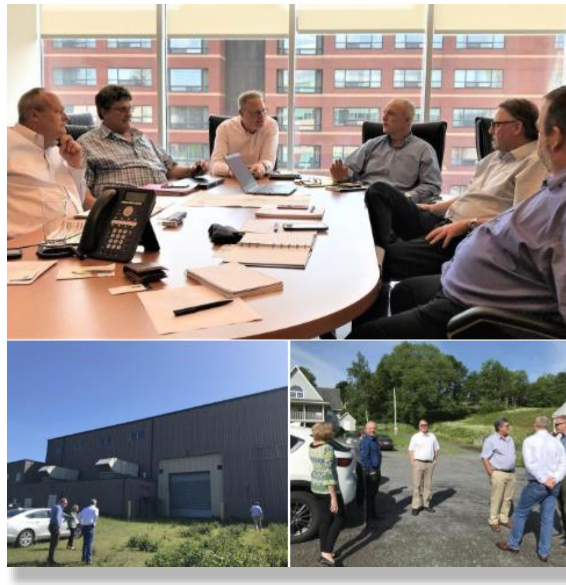
Close to 100 people attended the session in Nova Scotia last summer. Many drove two, even three hours to find out more about the Goldboro LNG project.

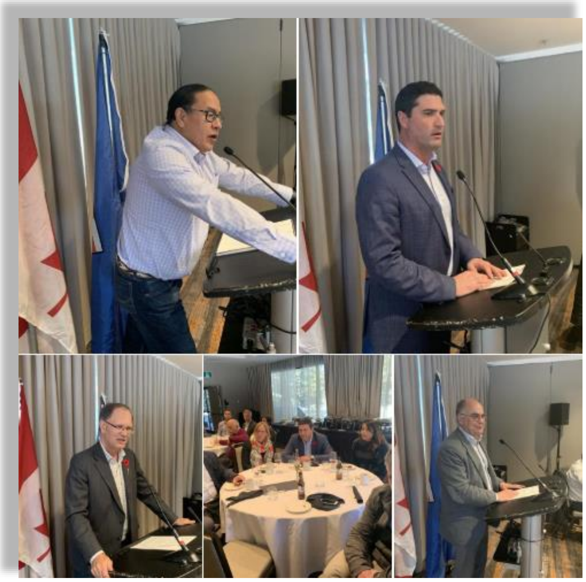
Injecting Some Stampede Spirit!

The Pieridae team had the opportunity to close the Toronto Stock Exchange in the summer of 2019.



The KBR team visits Halifax and tours the Goldboro LNG site area in 2019.





Dignitaries celebrate the Shell asset acquisition close. First Nations, the Governments of Alberta & Nova Scotia show support at a Kananaskis event.

CEO Alfred Sorensen meets with Honourable Seamus O'Regan, Canada's Minister of Natural Resources

Above all else, safety remains our top priority. No job is too important to jeopardize your own safety or others and the safety of property. Bringing 200 former Shell employees on board makes that commitment even stronger. Many were involved in building comprehensive safety, compliance and maintenance procedures for the gas plants we now own developed by a multinational corporation with global reach. We are continuing to follow these tried and true processes.

From a health, safety and environment (HS&E) perspective, we had a very successful year in 2019 with high ratings on all of our HS&E programs, and no major incidents. That's a major success for us.

The upstream part of the company was assembled through a series of acquisitions since 2014 with a focus on conventional reservoirs. Our current asset mix include three large gas plants that process gas from some of the largest conventional gas reservoirs in North America. Pieridae has continued to build on previous efforts to reduce environmental impact along several lines, including:

1. Maintaining strict emissions standards of released Sulfate aerosols: sour gas processing is more than 98% efficient at our gas plants and in order to meet mandated targets we undertake a comprehensive, self-directed air monitoring program;

2. Reducing green house gases: these include a reduction in CO_2 and CH_4, which are both recognized as significant contributors to a warming of the atmosphere caused by human activity;

3. Reducing water usage at our gas plants and returning recycled water back into the environment after treatment, without contamination; and

4. Minimizing the industrial footprint within the Alberta and B.C. Foothills.

Caroline Gas Complex

Pieridae is committed to reducing the environmental impacts of our assets.

Culturally, we have tackled head-on the monumental task of merging the values of four unique companies: Pieridae, Petrolia, Ikkuma and Shell. Through the guidance of an external organizational development expert, we are committed to defining who we are, our shared values and culture. Defining the 'Pieridae Way' supports longer term productivity and business success, while creating confidence with shareholders.

Diversity in the workplace is vital for employees and leaders. Teams and companies that make diversity a priority offer a variety of ideas, perspectives and learning opportunities. A diverse team brings together different talents, experiences and various skill sets to come up with creative and inventive solutions. Pieridae recognizes this and understands diversity begins at the top. So, a focus in 2020 is to add more gender balance to the Board to bring those ideas and perspectives forward to build a stronger company.

The Future

We have a responsibility at Pieridae to react aggressively to protect the company against the changed realities that have resulted from this global pandemic and a reduced commodity price environment.

We must take a leadership role by reducing operating costs, preserving cash, protecting our balance sheet and being ready to move forward as the industry improves. We know global LNG prices are under pressure, and the financing world is challenged based on the struggles the energy industry continues to face. We plan to continue to do what we can to make sure our Goldboro LNG Project is shovel ready.

We stated it takes a strong vision to get things done. That starts with management, the Board and everyone on the Pieridae team with a stake in this journey. Getting to our current state took a herculean effort in 2019 along with a healthy dose of shameless audacity. We need to take these learnings and attributes and stay the course in 2020, complete the engineering work with KBR for Goldboro, move to finalize project financing and be in a position to make a final investment decision.

A special thank-you to our Board colleagues. Difficult decisions had to made in 2019 and an extra level of effort was required to navigate the challenges. Our Board members maintained steadfast support and provided honest and wise guidance that demonstrated a dedication to succeed, with shareholders' interests top-of-mind.

We saw this same dedication from our employees. And as we continue to build a cohesive culture, a fascinating thing happened during the surreal reality of COVID-19. During daily discussions on how best to communicate with employees and deliver a plan to ensure our assets continue to operate safely, we have seen a real cohesiveness develop across the company, a tangible demonstration of how our organization is changing for the better.

The Oil & Gas Investment Bulletin wrote a story about Pieridae last fall that highlights our core narrative quite well. Playing on our stock ticker, the author described us as 'A PEA-sized company with a huge natural gas vision. If this is David and Goliath', they wrote, 'at the very least, David has some pretty big rocks in his sling'.

We will continue to use those rocks prudently and wisely.

Many are watching. We are up for the challenge.

Alfred Sorensen	**Myron Tétreault**
Chief Executive Officer	**Chairman of the Board**

Management’s Discussion and Analysis

This Management’s Discussion and Analysis ("MD&A") provides a review by management of the financial position and consolidated results of Pieridae Energy Limited ("Pieridae", "we", "our" or the "Company") for the quarters and years ended December 31, 2019 and 2018, as well as information about our future prospects. This MD&A has been prepared as of April 15, 2020 and should be read in conjunction with the Company’s annual audited consolidated financial statements and the accompanying notes for the years ended December 31, 2019 and 2018 (the “Financial Statements”), and the Annual Information Form for the year ended December 31, 2019. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (“IASB”). Pieridae’s reporting currency is the Canadian dollar. All amounts are presented in Canadian dollars ("CAD"), unless otherwise stated.

When preparing our MD&A, we consider the materiality of information. Information is considered material if (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of our shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. We evaluate materiality with reference to all relevant circumstances, including potential market sensitivity.

Reference is made to crude oil and natural gas in common units called barrel of oil equivalent ("boe"). A boe is derived by converting six thousand cubic feet ("mcf") of natural gas to one barrel ("bbl") of crude oil (6 Mcf:1 bbl). This conversion may be misleading, particularly if used in isolation, since the 6 mcf:1 bbl ratio 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 comparing the value ratio using current crude oil prices relative to natural gas prices, the 6 mcf:1 bbl conversion ratio may be misleading as an indication of value.

We are publicly traded on the TSX Venture Exchange under the symbol PEA. Continuous disclosure materials are available on the Company’s website, www.pieridaeenergy.com, or on SEDAR, www.sedar.com.

Special Note Regarding Non-IFRS Financial Measures

This MD&A includes references to financial measures such as net operating income ("NOI"), net back, adjusted flow of funds from operations ("AFFO") and project investment. The Company feels that these financial measures are important to the understanding of its business activities. These financial measures are not defined by IFRS 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. The Company uses these non-IFRS measures to evaluate its performance. The non-IFRS measures should not be considered an alternative to, or more meaningful than, measures determined in accordance with IFRS, as an indication of the Company’s performance. The non-IFRS measures are reconciled to their closest IFRS measure on page 46 of this MD&A.

Cautionary Note Regarding Forward-Looking Information

Certain of the statements contained herein including, without limitation, management plans and assessments of future plans and operations, Pieridae Energy Limited’s ("Pieridae" or the "Company") expected 2020 capital budget, Pieridae's future business plan and strategy, Pieridae's criteria for evaluating acquisitions and other opportunities, Pieridae's intentions with respect to future acquisitions and other opportunities, plans and timing for development of undeveloped and probable resources, timing of when the Company may be taxable, estimated abandonment and reclamation costs, plans regarding hedging, wells to be drilled, the weighting of commodity expenses, expected production and performance of oil and natural gas properties, results and timing of projects, access to adequate pipeline capacity and third-party infrastructure, growth expectations, supply and demand for oil, natural gas liquids, and natural gas, industry conditions, government regulations and regimes, and capital expenditures and the nature of capital expenditures and the timing and method of financing thereof, may constitute "forward-looking statements" or "forward-looking information" within the meaning of Applicable Securities Laws (as defined herein) (collectively "forward-looking statements"). Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", "shall", "estimate", "expect", "propose", "might", "project", "predict", "forecast" and similar expressions may be used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management.

The forward-looking statements are based on current expectations, estimates and projections about the Company and the industry in which the Company operates, which speak only as of the earlier of the date such statements were made or as of the date of the report or document in which they are contained, and are subject to known and unknown risks and uncertainties that could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others: general economic and business conditions (including as a result of demand and supply effects resulting from the COVID-19 virus pandemic and the actions of OPEC and non-OPEC countries) which will, among other things, impact demand for and market prices of the Company's products; volatility of and assumptions regarding crude oil, natural gas and natural gas liquids ("NGL") prices.

Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of resources estimates, environmental risks, competition from other producers, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources and the risk factors outlined under "Risk Factors" and elsewhere herein. The recovery and resource estimates of Pieridae's reserves provided herein are estimates only and there is no guarantee that the estimated resources will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

Forward-looking statements are based on a number of factors and assumptions which have been used to develop such forward-looking statements, but which may prove to be incorrect. Although Pieridae believes that the expectations reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements because Pieridae can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Pieridae operates; the timely receipt of any required regulatory approvals; the ability of Pieridae to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the operator of the projects which Pieridae has an interest in, to operate the field in a safe, efficient and effective manner; the ability of Pieridae to obtain financing on acceptable terms; the ability to replace and expand oil and natural gas resources through acquisition, development and exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of Pieridae to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Pieridae operates; timing and amount of capital expenditures, future sources of funding, production levels, weather conditions, success of exploration and development activities, access to gathering, processing and pipeline systems, advancing technologies, and the ability of Pieridae to successfully market its oil and natural gas products.

Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect Pieridae's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), and at Pieridae's website (www.pieridaeenergy.com). Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and Pieridae assumes no obligation to update or review them to reflect new events or circumstances except as required by Applicable Securities Laws.

Forward-looking statements contained herein concerning the oil and gas industry and Pieridae's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Pieridae believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Pieridae is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

Definitions and Abbreviations

bbl	Barrel	**Mcf**	Thousand cubic feet
Bcf	Billion cubic feet	**Mmcf**	Million cubic feet
Bcm	Billion cubic metres	**MMBtu**	Million British thermal units
GJ	Gigajoules	**USD**	United States Dollars

Objectives and Strategy

Pieridae is focused on becoming the first Canadian owned liquified natural gas ("LNG") producer that integrates (a) upstream activities consisting primarily of the acquisition and development of natural gas resource properties situated primarily in Alberta, the extraction of natural gas and other commodities from those properties and the initial processing of the natural gas in or near the field (the "Upstream Sector") and (b) midstream activities consisting primarily on the delivery of natural gas by pipeline to the site of the proposed Goldboro LNG Facility (as described below) where it is further processed and liquefied to produce LNG for sale to customers for export to international markets and to specific markets in North America (the "LNG Sector" and together with the Upstream Sector, the "Goldboro LNG Project").

The Company's' fundamental strategy is to acquire under-valued natural gas reserves (primarily in Alberta) which can be developed for the purpose of supplying natural gas to the proposed Goldboro LNG Facility (the "Goldboro LNG Facility" or the "Facility"), to construct the Facility and develop the natural gas reserves with low cost project financing (which is supported to a substantial degree by government guarantees) and to operate the Facility to produce high-valued LNG for sale in international markets.

The Company intends to construct its Goldboro LNG Facility near the community of Goldboro situated in the municipality of the district of Guysborough on the North Eastern coast of Nova Scotia. The Facility will be constructed in phases and will include (a) two trains ("Train One" and "Train Two", respectively), each with the capacity to produce approximately 4.8 million tonnes of LNG annually, (b) a power plant which will generate the electricity required to operate the Facility, (c) two LNG storage tanks and (d) marine structures and a jetty which will be equipped to accommodate concurrently two LNG vessels, each with a cargo capacity of up to 250,000 m^3 of LNG.

The Company takes a long-term approach to growth and investments in order to mirror the long-term nature of the infrastructure, and to focus on creating long-term shareholder value. Operational discipline, safe, effective and efficient operations, community outreach, and cost control are fundamental to the Company. By consistently managing costs, and continuing to integrate Environmental, Social and Governance ("ESG") considerations into our business plan, the Company believes it will achieve its long-term objectives. Opportunities to further integrate ESG considerations into our corporate strategy are being sought, and a plan is in place to ensure ESG risks and opportunities are addressed throughout the project lifecycle. Strategic, accretive acquisitions are a key component of the Company's strategy. The Company has selectively acquired properties generating future cash flows and aligning with its long-term objective. The Company may also selectively purchase other resource owners' gas or provide LNG processing services to the extent there is spare capacity at the Facility.

2019 Operational Highlights

Aggressive Growth in Upstream Segment

On June 26, 2019, Pieridae signed a purchase and sale agreement ("Shell PSA") with Shell Canada Energy ("Shell") to purchase (the "Acquisition") all of Shell's midstream and upstream assets in the southern Alberta foothills (the "Shell Foothills Assets") for a purchase price of $190.0 million, subject to normal adjustments. As part of the consideration, 15,219,619 common shares of the Company were issued to Shell. This transaction closed on October 16, 2019.

The assets acquired from Shell align well with Pieridae's existing central Alberta properties, providing further consolidation of the Alberta and British Columbia conventional Foothills natural gas pools. The Company expects to capitalize on operational synergies that will be realized within the acquired areas where consolidation of working interests in production and midstream assets complement Pieridae's existing assets. Further development of these properties is anticipated to provide most of the natural gas production required to supply the first train of its proposed Goldboro LNG Facility in Nova Scotia.

The Shell Foothills Assets produce approximately 29,000 boe/day consisting of approximately 125 mcf/day of natural gas, 5,400 bbl/day of NGLs and 3,100 bbl/day of condensate and light oil. This acquisition also included three deep cut sour gas processing plants (Jumping Pound, Caroline and Waterton) which have a combined capacity of approximately 750 mmcf/day, and which are operating with approximately 420 mmcf/day of spare capacity as at December 31, 2019, a 14% working interest in the Shantz sulphur forming plant, and approximately 1,700 kilometres of associated pipeline infrastructure. On a combined basis, Pieridae averaged 42,137 boe/day in the quarter ended December 31, 2019.

Prior to the acquisition of Shell's Foothills Assets, Pieridae's revenue streams were limited primarily to dry gas and sulphur. The acquired deep cut processing plants allow further revenue diversification through the additional or expanded production of ethane, propane, butane and condensate. These plants also allow Pieridae to realize third-party processing revenue, and the processing capacity to expand this revenue in the future.

Successful Engagement with First Nations

On February 4, 2019, the Nova Scotia Mi'kmaq Benefits Agreement negotiated with the Assembly of Nova Scotia Mi'kmaq Chiefs was ratified. The Benefits Agreement establishes the framework under which the Mi'kmaq of Nova Scotia will benefit economically from the development, construction and operation of the Goldboro LNG Facility. A Memorandum of Understanding, signed in 2013, originally outlined the relationship between Pieridae and the Mi'kmaq in Nova Scotia and this new Benefits Agreement underscores Pieridae's commitment to ongoing engagement and relationship building with the First Nations communities in Nova Scotia.

Progress on Engineering and Design

On April 1, 2019, the Company announced that it had engaged Kellogg Brown & Root Limited ("KBR") to perform a review of an amended version of the previously prepared front-end engineering and design ("FEED") study for the proposed Goldboro LNG Facility. KBR will also conduct an Open Book Estimate ("OBE") necessary for entering into a lump sum engineering, procurement, construction and commissioning ("EPCC") contract. Since that time $6.1 million was incurred to progress the EPCC contract with KBR.

Financings

Between February 12, 2019 and March 6, 2019 the Company raised an aggregate of $18.6 million through the issuance of 9,276,000 common shares at a price of $2.00 per common share in concurrent brokered and non-brokered private placements, including shares issued under an overallotment option granted to a syndicate of investment dealers co-led by KES 7 Capital Inc., National Bank Financial Inc. and Laurentian Bank Securities Inc. Within this offering, certain officers and directors of Pieridae subscribed for a total of 150,000 common shares pursuant to the Non-Brokered Offering for aggregate gross proceeds of $0.3 million. As part of the brokered private placement, the Alberta Investment Management Corporation ("AIMCo) made a strategic investment in Pieridae by purchasing 5,000,000 common shares on behalf of certain of its funds.

In conjunction with the signing of the Shell PSA, the Company launched:

(i) a non-brokered private placement of up to 3,488,372 common shares of the Company at a price of $0.86 per common share, for aggregate gross proceeds of up to $3.0 million.

(ii) a non-brokered private placement of a secured convertible debenture of the Company for aggregate gross proceeds of $10.0 million.

(iii) a brokered private placement for up to 44,186,047 subscription receipts of the Company at a price of $0.86 per subscription receipt, for gross proceeds of up to $38.0 million. This offering was partially closed on July 2, 2020 for total proceeds of $12.2 million.

On September 5, 2020, the Company's agent received subscriptions for the placement of 38,637,850 subscription receipts of the Company at a price of $0.86 per subscription receipt for gross proceeds of $33.2 million. This includes a subscription of $20.0 million from Erikson National Energy Inc. ("Erikson"), through its agent, Third Eye Capital Corporation ("TEC"), which places Erikson as a significant shareholder of the Company. Proceeds were used to partly fund the acquisition of the Shell Foothills Assets.

Concurrently, TEC, as agent of Erikson, issued a senior secured non-revolving term loan facility in the aggregate amount of $206.0 million (the "Term Loan"). The Term Loan bears interest at a fixed rate of 12.0% per annum from the date of issue, accrued daily and payable quarterly in cash. Additional interest of 3.0% per annum is payable quarterly in cash or, at the option of the Company and subject to the lender's approval, payable in kind by way of accruing to the principal outstanding. The advance under the Term Loan was used to partially fund the Acquisition, to repay Pieridae Alberta Production Ltd.'s (formerly Ikkuma Resource Corp. ("Ikkuma")) then current outstanding debt owed to AIMCo pursuant to the term loan entered into with AIMCo on December 20, 2018, to fund letters of credit required for existing and purchased assets, and to satisfy all fees and expenses associated with the Term Loan and Acquisition. As part of the conditions of the Term Loan, Mark Horrox, a Principal at TEC, was appointed to the Board of Directors on November 1, 2019.

Extensions of Key Deadlines

On July 9, 2019, Pieridae negotiated extensions of the key deadlines under its 20-year agreement with German utility Uniper Global Commodities S.E. ("Uniper"). These include expected commercial deliveries of LNG to Uniper to start between late 2024 and mid 2025; and the extension to September 30, 2020 of the deadline to make a positive financial investment decision ("FID") for the Company's proposed Goldboro LNG Facility.

Subsequent to December 31, 2019, crude oil benchmark prices decreased substantially due to a drop in global crude oil demand triggered by the impact of the COVID-19 virus on the global economy. In March 2020, crude oil prices decreased further due to a breakdown in negotiations between OPEC and non-OPEC partners regarding proposed production cuts. As a result of depressed market conditions and COVID-19 impacts, FID will be delayed beyond September 30, 2020, and a further announcement will be made once COVID-19 impacts and markets stabilize. The Company is currently in negotiations with Uniper to extend the FID deadline to June 2021 and believes it will obtain this extension.

While the impact of these events has not been as significant to Canadian natural gas prices, the current challenging economic climate may lead to adverse changes in cashflows and working capital levels, which may also have a direct impact on the Company's operating results and financial position. The Company has a strong hedging program in place to insulate itself from deteriorating prices, resulting in approximately 60% of natural gas and condensate sales being hedged as at December 31, 2019. This program has proven successful at providing a degree of pricing certainty and revenue stability during these volatile times.

Operating and Financial Results

Select Consolidated Financial Results

Pieridae reports business results in two segments: Upstream and Goldboro LNG. The tables below provide a summary of the consolidated financial results for the three years ended December 31, 2019 and 2018 and 2017.

	For the year ended December 31,					
($000s, except per share amounts)		**2019**		2018		2017
Revenue	**$**	**114,406**	$	2,822	$	90
Net operating income (loss) [1]	**$**	**24,957**	$	(530)	$	(1,459)
Net loss attributable to equity holders	**$**	**71,573**	$	34,870	$	8,825
Net loss per common share - basic and diluted	**$**	**0.73**	$	0.68	$	0.24
Cash used in operating activities	**$**	**(51,772)**	$	(8,407)	$	(10,239)
Adjusted flow of funds from operations [1]	**$**	**608**	$	(8,530)	$	(6,127)
Capital expenditures	**$**	**169,167**	$	981	$	192
Project investment [1]	**$**	**178,317**	$	9,782	$	6,640
Net working capital (deficit) [1]	**$**	**19,105**	$	(76,010)	$	10,989
Total assets	**$**	**602,474**	$	370,673	$	74,045
Total non-current financial liabilities	**$**	**412,733**	$	158,689	$	3,220
Shareholders' equity	**$**	**104,315**	$	91,748	$	59,362

(2) non-IFRS measures, refer to the "Non-IFRS measures" section of this MD&A

Net Operating Income, Cash Flow from Operations and Adjusted Flow of Funds from Operations [1]

	For the quarter ended December 31,			For the year ended December 31,		
($000s)		**2019**	2018		**2019**	2018
Petroleum and natural gas (net of royalties)	**$**	**54,226**	2,321	**$**	**101,155**	2,321
Other income	**$**	**881**	112	**$**	**2,665**	409
Third-party processing income	**$**	**5,389**	-	**$**	**6,831**	-
Losses on risk management contracts	**$**	**(45)**	-	**$**	**(701)**	-
Operating expenses	**$**	**32,949**	2,627	**$**	**77,036**	3,054
Transportation	**$**	**3,077**	206	**$**	**7,957**	206
Net operating income (loss) [1]	**$**	**24,424**	(400)	**$**	**24,957**	(530)
Operating netback per boe [1]	**$**	**6.30**	(2.07)	**$**	**3.05**	(2.75)
Cash used in operating activities	**$**	**(17,681)**	(4,485	**$**	**(51,772)**	(8,407)
Adjusted funds flow from operations [1]	**$**	**14,447**	(4,009)	**$**	**608**	(8,530)

(1) Non-IFRS measures, refer to the "Non-IFRS measures" section of this MD&A

The transformation of Pieridae as a result of its acquisitions of Ikkuma in December 2018 and the Shell Foothills Assets in October 2019, is apparent when comparing our year over year results. Production has grown from nothing prior to the Ikkuma acquisition to 42,137 boe/day in Q4, 2019. While the majority of our production is natural gas, the growth in NGL and condensate production, afforded by the deep-cut capability of the processing facilities acquired from Shell, provided Pieridae new revenue streams in 2019 including ethane, propane, butane and substantial increases in condensate and sulphur production. Year over year increases in petroleum and natural gas sales, royalties, operating expenses and transportation expenses all speak to this growth. As a result, NOI grew from a loss of $0.5 million in 2018 to income of $24.9 million in 2019, $24.4 million of which was earned in the fourth quarter of 2019. Additionally, our working capital improved from a deficit of $76.0 million as at December 31, 2018 to a surplus of $19.1 million as at December 31, 2019. This transformational growth will provide Pieridae the liquidity it needs to continue to operate its newly acquired and existing assets, as well as to further de-risk the development work required for the Goldboro LNG Project.

Upstream Segment

The upstream segment is represented predominantly by the petroleum and natural gas production operations and properties acquired from Shell and Ikkuma (refer to Note 5 of the Financial Statements). It also includes the Company's upstream operations in Eastern Canada, and certain corporate overhead activities associated with these operations. Upstream is currently the only segment generating operating revenues.

Production

	For the quarter ended December 31,		For the year ended December 31,	
	2019	2018	**2019**	2018
Sales volumes:				
Natural gas (mcf/day)	**204,262**	102,952	**121,263**	102,952
NGL's (boe/day)	**8,113**	350	**2,189**	350
Total sales (boe/day)	**42,137**	17,509	**22,397**	17,509

Production for the quarter ended December 31, 2019 increased 241% up to an average of 42,137 boe/day compared to 17,509 boe/day for the same quarter of 2018. For the year ended December 31, 2019, average production increased 27.9 % to 22,397 boe/day in 2019 from 17,509 boe/day for the same period of 2018.

The production increase in 2019 is a result of the recognition of a full year of Ikkuma results, and the acquisition of the Shell Foothills Assets in October 2019. The significant growth in condensate and NGL production in the quarter ended December 31, 2019 also reflects the deep cut capacity of the processing facilities acquired.

Revenues and Realized Prices

	For the year ended December 31,			
($000s except per boe and pricing)		**2019**		2018
Natural gas	**$**	**77,425**	$	1,785
NGL's	**$**	**5,514**	$	-
Condensate	**$**	**17,660**	$	295
Sulphur	**$**	**4,311**	$	333
Petroleum and natural gas revenues	**$**	**104,910**	$	2,413
Other income	**$**	**2,665**	$	409
Third-party processing	**$**	**6,831**	$	-
	$	**114,406**	$	2,822
Average sales volume (boe/day) (1)		**22,397**		17,509
Petroleum and natural gas revenues per boe	**$**	**12.83**	$	12.53
Realized Prices				
Natural gas ($/mcf)	**$**	**1.75**	$	1.57
NGL's ($/bbl)	**$**	**11.14**	$	-
Condensate ($/bbl)	**$**	**58.00**	$	77.27
Sulphur ($/ton)	**$**	**28.78**	$	93.15

(1) Average sales volume in 2018 reflect 11 days of production following the acquisition of Ikkuma, and are not representative of an entire fiscal year

Petroleum and natural gas revenue increased $102.5 million, or 4347% to $104.9 million during the year ended December 31, 2019 as compared to the year ended December 31, 2018. This increase was largely attributable to the year over year increase in sales volumes. In addition, while benchmark natural gas prices fell during the period, Pieridae's average realized price per-boe increased by 2.4%, as a result of a more favourable product mix and successful hedge program. The year-over-year increase in sales volumes is directly attributable to the two transformational business combinations that the Company undertook in 2018 and 2019. The purchase of Ikkuma resulted in 11 days of operating results included in the quarter ended December 31, 2018, the comparative quarter in 2019 reflects a full year of production from the Ikkuma acquisition plus 76 days of production from the acquisition of the Shell Foothills Assets.

For 2019, natural gas and NGLs revenues include the results of Pieridae's commodity hedging programs, which are primarily physical hedges. Pieridae seeks to manage price risk across all the commodities it produces including, natural gas, oil, condensate, propane, butane, ethane, sulphur and currency. The hedging programs focuses on two primary goals: first reducing overall commodity revenue volatility and secondly achieving or protecting revenue targets for overall corporate. Favorable pricing for these hedges helped to put a more sustainable floor under prices.

Other revenue, consisting of gas handling and transportation fees, and third-party processing revenue increased $9.1 million, or 2,222% to $9.5 million during the year ended December 31, 2019 as compared to the year ended December 31, 2019. This increase primarily reflects 10 weeks of results from the acquired deep-cut processing facilities and associated infrastructure in late 2019, and Pieridae's midstream revenue diversification.

Benchmark and Realized Pricing

Benchmark Prices:

(Yearly average)		**2019**		2018
AECO benchmark price (CAD/GJ)	**$**	**1.45**	$	1.45
Condensate benchmark price USD/bbl)	**$**	**44.06**	$	60.98
NYMEX benchmark price (USD/MMBtu)	**$**	**2.52**	$	3.08
WCS heavy differential from WTI (USD/bbl)	**$**	**-10.88**	$	26.29
Dated Brent benchmark price (USD/bbl)	**$**	**64.24**	$	71.12
NBP UK natural gas benchmark price (USD/MMBtu)	**$**	**4.84**	$	7.93
US/Canadian dollar average exchange rate (USD)	**$**	**0.7563**	$	0.7717
US/Canadian dollar year end exchange rate (USD)	**$**	**0.7699**	$	0.7328

Pieridae Realized Prices

	For the year ended December 31,			
($000s except per boe and pricing)		**2019**		2018
Realized Prices				
Natural gas ($/mcf)	**$**	**1.75**	$	1.57
NGL's ($/bbl)	**$**	**11.14**	$	-
Condensate ($/bbl)	**$**	**58.00**	$	77.27
Sulphur ($/ton)	**$**	**28.78**	$	93.15

The Company realized a natural gas price of $1.75/mcf in 2019 vs $1.57/mcf in 2018. The improvement versus 2018 was attributable to a successful hedge program and strengthening of natural gas prices in late Q3 2019.

Royalties

	For the year ended December 31,			
($000s except per boe)		**2019**		2018
Royalties	**$**	**3,755**	$	92
Royalties per boe	**$**	**0.46**	$	0.48

Royalty expenses for the year ended December 31, 2019 increased by $3.7 million, or 3,982%. On a per-boe basis, royalties decreased by $0.02 or 4% to $0.46/boe. The increase in total royalty expense reflects the increase in Pieridae's production versus 2018. boe

Operating Expenses

	For the year ended December 31,			
($000s except per boe)		**2019**		2018
Operating expense	**$**	**77,036**	$	3,054
Operating expense per boe	**$**	**9.42**	$	15.86

Operating expenses for the year ended December 31, 2019 increased by $74.0 million, or 2,522%, compared to the year ended December 31, 2018. As a result of the acquisitions in late 2018 and late 2019, these results show that while the large increase in production and associated increase in complexity of operations led to larger aggregate operating expenses, the Company was able to realize many efficiencies due to economies of scale, resulting on significantly lower operating expenses per boe.

Administrative Expenses

		For the year ended December 31,		
($000s)		**2019**		2018
Administrative expenses	**$**	**6,452**	$	729

Administrative expenses for the year ended December 31, 2019 increased by $5.7 million, or 785% compared to the same period in 2018. The expanded geological and engineering capabilities acquired in 2018 and 2019, in addition to the need to strengthen corporate services to accommodate the growing organization, all contributed to the increase. The significant one-time costs associated with the integration of the acquisition of the Shell Foothills Assets, and the related financing, further added to administrative expenses.

Transportation Expenses

		For the year ended December 31,		
($000s except per boe)		**2019**		2018
Transportation expense	**$**	**7,957**	$	206
Transportation expense per boe	**$**	**0.97**	$	1.07

Transportation expenses for the year ended December 31, 2019 increased by $7.8 million, or 3,763% compared to the same period in 2018. This increase is broadly reflective of the increase in production volume between the comparative periods. Transportation expense per boe decreased by $0.10 or 9% in the year ended December 31, 2019 versus 2018. This decrease is largely attributable to the reduced impact of the fixed component of transportation expenses due to the large increase in production.

Depletion and Depreciation

		For the year ended December 31,		
($000s)		**2019**		2018
Depletion and depreciation	**$**	**21,503**	$	700

Depletion and depreciation for the year ended December 31, 2019, was $22.0 million. The large year over year increase is again due to the absence of any meaningful comparable in 2018 as Pieridae only reflected 11 days of Ikkuma's operations in 2018. By virtue of being an expense based on the unit of production, a large year over year increase in depletion is to be expected. This is especially true in light of the addition of Shell's Foothills properties in Q4.

Impairment

		For the year ended December 31,		
($000s)		**2019**		2018
Impairment	**$**	**27,590**	$	16,985

In 2019, as a result of decisions on strategic investment opportunities throughout the year, the Company re-evaluated its licenses in Quebec, which are recorded as exploration and evaluation (E&E) assets, and concluded that these properties no longer met its internal investment thresholds for future development. Consequently, the remaining carrying value of these properties was written off resulting in a $19.7 million impairment charge as at December 31, 2019. This write off, combined with a $7.9 million impairment charge as a March 31, 2019, brought the total impairment for 2019 to $27.6 million. All remaining E&E assets are associated with exploration work ongoing in Western Canada.

The Company did not identify any indicators of impairment in any cash generating unit ("CGU") of its oil and gas development and production assets.

In 2018 an impairment of $17.0 million was recognized against Quebec E&E assets as a result of Pieridae's determining that new legislation applicable to its exploration licenses in that province would impact its ability to obtain future benefits associated with certain licenses. These licenses were relinquished, and the costs capitalized to date were written-off.

Share Based Payments

		For the year ended December 31,		
($000s)		**2019**		2018
Share-based compensation	**$**	**456**	$	250

Pieridae uses the fair value method for determination of non-cash share based payments. During the year ended December 31, 2019 the Company issued a total of 4,264,341 options in two separate grants at a weighted-average exercise price of $0.90, as compared a total 1,142,400 options at a weighted average exercise price of $5.67 during the year ended December 31, 2018.

Share-based payments for the year ended December 31, 2019 increased by $206 thousand, or 82%, compared to the same period in 2018. The increase is primarily due to one of the two grants issued during the year had immediate vesting period, resulting in 100% of the fair value being recognized immediately.

Financial Income and Expenses

	For the year ended December 31,			
($000s)		**2019**		2018
Interest expense	**$**	**13,695**	$	-
Interest income	**$**	**(230)**	$	(18)
Accretion	**$**	**2,959**	$	157
Total	**$**	**16,424**	$	139

Financial income and expenses increased by $16.3 million in 2019 versus the comparable period in 2018. The primary reason for the increase is the term debt associated with the acquisitions undertaken by the Company in late 2018 and late 2019. From December 20, 2018 to October 16, 2019 a $50.0 million term loan was outstanding with AIMCo, bearing interest at an effective rate of 9.5%. Effective October 16, 2019, this term loan was repaid by the simultaneous establishment of a new $206.0 million term loan, bearing interest at an effective rate of 22%, which includes the amortization of certain finance and transaction costs. Additionally, on June 27, 2019, the Company issued a $10.0 million convertible loan bearing interest at an effective rate of 9.5% which was repaid in full in October 2019. For additional information on the Company's borrowings refer to the Loans and Term Debt section of this MD&A and Note 12 of the Financial Statements.

The Company recognized $230 thousand of interest income as a result of interest received on cash deposits.

Accretion expense increased by $2.8 million in the year ended December 31, 2019. This increase reflects the increased decommissioning burden associated with the assets acquired during 2018 and 2019.

LNG Segment

The LNG segment contains all activities associated with the development of the Company's proposed Facility in Goldboro, Nova Scotia and the majority of Pieridae's corporate overhead activities.

The Goldboro LNG site is near the community of Goldboro, Nova Scotia. The site was selected to make use of existing infrastructure and is aligned with the Company's goal to minimize capital exposure by reusing existing, underutilized midstream infrastructure. The site is close to a decommissioned sour gas processing facility which gathered gas from numerous offshore reservoirs. That plant processed gas from the offshore Scotia shelf at the Sable Island project, and it tied into an existing sales pipeline (the Maritimes Northeast Pipeline) which is conveniently located next to the site, and which will be modified to deliver supply gas to the Goldboro LNG Facility.

The Goldboro LNG Facility has progressed to the OBE stage and KBR has been engaged to review the previously completed FEED study and provide a fixed price contract to construct the gas liquefaction facility. In addition to the facility construction, Pieridae has retained sole responsibility to contract the site preparation, marine civil works, and worker camp. These projects will be financed concurrently with a positive FID decision, and project execution will commence thereafter.

Under the FEED study, Air Products and Chemicals, Inc. (APCI) will develop, design and deliver a two-train (each 4.8 mmtpa at FOB) facility. A two-train construction project is contemplated to span approximately 56 months. Much of the construction contemplates assembling modules built in offshore yards while employing approximately 4,500 local workers during the peak construction phase. These employees will be housed at a temporary camp, which will be built on or nearby the existing decommissioned Sable Island sour gas plant site. Site preparation, site drainage, highway reconstruction, marine facilities, are amongst some of the major projects that must be assembled in tandem with, or prior to, the LNG liquefaction facility construction.

Following the FEED verification, KBR will proceed to the OBE stage where they will commence contacting numerous contractors in order to derive a fixed price for the facility construction and commissioning. The fixed price and terms and conditions of the EPCC contract will be negotiated following the agreement of detailed scope and timeline.

Project Background

Integrated LNG Business Model

The acquisition of Shell's Foothills assets further solidifies Pieridae's position as a fully integrated LNG enterprise holding key permits and approvals. It also greatly expands its portfolio of natural gas reserves, and its ability to generate sufficient natural gas to supply Goldboro. With the completion of the Shell asset acquisition, the Company estimates that it has enough resource capacity, to fill Train 1 of the proposed Facility at Goldboro. The Company plans to continue to add to these resource and reserves as markets and finances permit. A 20-year, take-or-pay contract with Uniper, together with the additional sales contract with Axpo, ensures that there will be a long-term, stable offtake for more than half of the planned capacity of Goldboro.

Financing (UFK)

The confirmation in principle on April 25, 2013, that the project financing to be secured for constructing the first train of Goldboro will qualify for a US $3.0 billion loan guarantee from the German government provided that, among other things, at least 1.5 MMTPA of the 4.8 MMTPA LNG produced from the first train of Goldboro will be delivered to the German domestic gas market. The loan guarantee is expected to result in a lower cost of capital for Pieridae and enhance the leverage which can be achieved. This should represent a significant advantage over its competitors and translate into a cost of capital lower than an integrated LNG company without such guarantees.

On October 29, 2018 the proposed financing of upstream activities within the Goldboro LNG Project received a written confirmation of eligibility in principle for up to US $1.5 billion of untied loan guarantee by the German federal government. This confirmation marked an important milestone in advancing the integrated Goldboro LNG Project towards a final investment decision. This prospective US $1.5 billion German government loan guarantee in relation to the proposed financing of conventional upstream natural gas development is in addition to the US $3.0 billion of prospective German government loan guarantees for the proposed financing of the construction of the Goldboro LNG Project train 1 and all associated facilities.

World Demand

According to the International Energy Agency ("IEA"), global natural gas demand is expected to grow from 3,955 bcm to 4,719 bcm between 2018 and 2030. Global liquefaction capacity will need to grow to nearly 875 bcm by 2024 to meet expected demand. Currently the IEA foresees a shortfall in liquefaction capacity of roughly 375 bcm by 2040. As the closest North American LNG export terminal to Europe, Goldboro will be well-placed to capitalize on this growing demand.

While recent events such as the COVID-19 pandemic and the price war between Russia and Saudi Arabia have shaken markets and called into question the viability of certain LNG projects, the Company is confident that these issues are temporary. Pieridae maintains its focus on long-term value creation. Expectations are still that LNG will become the fuel of choice as countries look to reduce their carbon footprint. The long-term commitments of customers such as Uniper, speak to the confidence that countries, and utilities, have that LNG is part of the path toward reducing GHG emissions and addressing climate change.

Stranded Supply

Part of Pieridae's value chain strategy is to acquire stranded and economically constrained natural gas reserves and move them to world markets, capitalizing on higher global market prices. The Company has executed on this strategy in each of the past two years. In December 2018 it acquired Ikkuma, and in October 2019 it acquired the Shell Foothills assets. The significant decreases in crude prices brought about by the COVID-19 pandemic and the Saudi - Russia price war, has decimated the valuations and prospects of many companies in Alberta. For some companies it could present an opportunity to access additional reserves, as companies shed properties to avoid liquidation. The advancement of the Goldboro LNG Project is one advantage unique to Pieridae, and it could help facilitate additional acquisitions for the Company.

Transport Capacity

The gas supply for Goldboro will be delivered via existing pipelines to the Maritimes and Northeast Pipeline ("M&NP"), located directly alongside the project site. Western Canadian production would move through TC Energy's Canadian Mainline ("Mainline"). This represents an opportunity for TC Energy, as their Canadian Mainline is currently substantially underutilized. There are some sections of the subsidiary lines which will require upgrading to meet Pieridae's capacity requirements, and engineering work is ongoing to refine the adjustments required.

Key Milestones

The following is a discussion of the key milestones for the Goldboro LNG project

Milestone	Status
Secure sales contracts for 9.6 MMTPA (the design capacity of the two trains).	• Pieridae has an agreement with Uniper which contemplates the sale, on a "take or pay" basis, of 4.8 MMTPA of LNG for a term of 20 years commencing at the start of commercial deliveries of LNG. • Pieridae has a term sheet to negotiate a binding LNG sale and purchase agreement to supply up to 1.0 MMTPA of LNG to Axpo, a Swiss utility. • Negotiations are under way for additional sales agreements.
Secure supply of approximatly 1.4 billion cubic feet per day of natural gas, and the related infrastructure improvements required to supply the 9.6 MMTPA of LNG to the proposed Goldboro LNG Facility.	• In October 2019 Piereidae added 1,077 million cubic feet of total proved plus probable natural gas reserves through its acquisition of Shell's Foothills upstream and midstream assets. • The upstream reserves, including approximately 500 potential drilling locations identified to date, in various stages of de-risking/technical due diligence, will provide sufficient productive capacity to fill the first train at Goldboro. • In December 2018 Pieridae added 671 million cubic feet of total proved plus probable natural gas reserves through the Ikkuma acquisition. • Confirmation of eligibility in principle for up to US $1.5 billion of untied loan guarantee by the German federal government under its UFK program to support upstream development. • Pieridae is acquiiring and reprocessing a significant amount of 3D seismic information on its growing reserve base. This will be used to formulate a comprehensive drilling plan that will ultimately grow production to the levels required to fill Train 1. • Pieridae continues to seek additional gas properties through acquisitions or processing agreements, for which negotiations are ongoing.
Complete engineering and design required for Facility construction.	• Project site acquired. • Beginning of the land preparation was completed in early 2018. • Preliminary FEED has been completed. • OBE for the primary EPCC contract was awarded to KBR. Work continues, and a high level cost estimate is pending. • As a result of a depressed market and COVID-19 impacts, we will not meet our current September 30, 2020 date to achieve FID for the project. Once COVID-19 impact and market conditions improve, we will be in a better position to announce an updated FID date. • Work is also continuing on site preparation and planning. Detailed engineering work is being finalized on water intake, the wharf and jetty, and stormwater drainage and treatment options in addition to detailed planning of the road relocation, work camp and site terracing. If financing is in place, we anticipate some of this work could begin in the fall of 2020.
Secure transportation agreements to deliver natural gas to the Goldboro LNG Facility.	• Memorandums of understanding have been completed with owners of the respective pipelines for long-term capacity. • The Company is eligible to request, at any time, an open season process to finalize these agreements.
Obtain all permits and authorizations required to proceed with construction.	• We have received all the major permits for the Project, including: • Environmental Assessment Approval • National Energy Board LNG Export License • National Energy Board Import License • US DOE LNG FTA Export Permit • US DOE NFTA Export Permit • Goldboro Construction Permit
Obtain agreement from organized labour and local indigenous groups to mitigate the risk of disruption during construction.	• Project special needs collective agreements (the "Collective Agreement") have been negotiated with 15 of the relevant trade unions in Nova Scotia, of which 13 have signed and ratified the Collective Agreement.

	• The Labour Board (Nova Scotia) issued order LB-1322 and order LB-1323 declaring that the Collective Agreement is a project agreement and that it is effective commencing July 27, 2017. • Have signed a Benefits Agreement with The Assembly of Nova Scotia Mi'kmaq Chiefs on February 4, 2019. The agreement means the Mi'kmaq will benefit economically as the Goldboro LNG Facility is developed, built and begins operating.
Secure the required funding.	• The confirmation in principle on April 25, 2013, that the project financing to be secured for constructing the first train of Goldboro will qualify for a US $3.0 billion loan guarantee from the German government. • On October 29, 2018 the proposed financing of upstream activities within the Goldboro LNG Project received a written confirmation of eligibility in principle for up to US $1.5 billion of untied loan guarantee by the German federal government.

More information on the above noted contracts and regulatory efforts can be found in the Company's 2019 Annual Information Form which can be found on www.sedar.com.

Final Investment Decision ("FID")

As a result of depressed market conditions and COVID-19 impacts, FID for the Goldboro LNG Project will be delayed beyond the previously disclosed date of September 30, 2020. Once COVID-19 and market conditions improve, we will be in a better position to announce an updated FID date.

That said, Pieridae continues to advance the project on a number of fronts; the Company is working with KBR as they conduct an OBE necessary for entering into a defined scope fixed price EPCC contract. These activities will occur over the next number of months. The completion of this works allows us to complete our final due diligence and proceed with project financing.

We are also working with KBR and others on the planning and pre-construction work for six priority areas:

- Site roadwork
- Water pipeline construction
- Water Treatment plant construction
- 'Terracing' of the site
- Building the work camp
- Building the wharf and jetty

If financing is in place, we anticipate some of this work could begin in the fall of 2020.

Administrative expenses

	For the year ended December 31,			
($000s)		**2019**		2018
Administrative expenses	**$**	**13,472**	$	4,059

Administrative expenses for the year ended December 31, 2019 increased by $9.4 million or 232% compared to the same period in 2018. A number of factors contributed toward this increase including a large increase in corporate head count during the year in order to support and maintain the growing operations while moving the Goldboro project forward, the addition of a number of executive and administrative positions and related corporate expenditures in association with the purchase of Ikkuma and the acquisition of the Shell Foothills Assets, and administrative costs associated with due diligence work on the acquisition of the Shell Foothills Assets.

Development Expenses

	For the year ended December 31,			
($000s)		**2019**		2018
Development expenses	**$**	**9,150**	$	8,801

Development expenses for the year ended December 31, 2019 increased by $350 thousand compared to 2018. During 2019 engaged KBR to commence work on the OBE, and additional progress was made on engineering work for the site. However, the Company diverted significant resources and focus to the acquisition of the Shell Foothills Assets. Consequently, certain planned expenditures were also deferred until 2020. The company has invested more than $70.0 million to date in Goldboro toward the land purchase, contract negotiation, completing the FEED, OBE and obtaining the environmental assessment approval.

Share-based Payments

		For the year ended December 31,		
($000s)		**2019**		2018
Share-based compensation	**$**	**1,042**	$	2,914

Share-based compensation expense for the year ended December 31, 2019 decreased by $1.9 million, or 64% compared to 2018. In January 2018 an option grant occurred under which many options vested immediately at a fair value of $2.84, resulting in a one-time expense of $2.4 million. In 2019, an increase in employees receiving options was offset by a decrease in the fair value of options issued, resulting in overall reduced share-based payment expense.

Liquidity and Capital Resources

Cash and Cash Equivalents

Pieridae held $9.6 million in cash and cash equivalents at December 31, 2019. This does not include $19.1 million held as restricted cash, of which $5.0 million pledged as security for various Letters of Credit ("LC's"), which are required to be posted with provincial agencies and other companies in order to facilitate the Company's ongoing operations, and $14.1 million held pending potential regulatory LCs as a result of the Acquisition. $3.4 million of the issued LCs renew automatically every anniversary date, the remaining $1.6 million mature in 2020. As at December 31, 2018 LCs totaling $3.3 million were outstanding. Restricted cash of $5.5 million related to Ikkuma's hedging program was also in place, prior to the program being discontinued in January 2019.

Within the $9.6 million in cash and cash equivalents, $1.5 million is held for exploration purposes, as a result, the net cash and cash equivalents not restricted is $8.1 million.

Loans and Term Debt

On June 26, 2019, the Company announced that it had closed a non-brokered private placement of a secured convertible debenture of the Company for aggregate gross proceeds of $10.0 million. These funds were used to pay the $10.0 million deposit on the acquisition of the Shell Assets (Note 5). The common shares of the Company issuable upon conversion of the convertible debenture were issued immediately after the Shell asset acquisition was completed. The conversion price of the common shares was $0.86 per common share. The convertible debenture bore interest at 9.5% per annum.

On October 16, 2019 the Company entered into a fully drawn senior secured non-revolving term loan facility (the "Credit Facility") for $206.0 million. This Credit Facility bears interest at a fixed rate of 12.0% per annum from the date of issue, accrued daily and payable quarterly in cash, plus an additional 3.0% per annum, which is payable quarterly either in cash or, at the option of the Company and subject to the lender's approval, in kind by way of accruing to the principal outstanding. The Credit Facility is repayable in full on October 16, 2023, however the Company has discretion to repay the principal in whole or in part any time prior to this date upon 90 days written notice to the lender, without penalty. The Company used the proceeds of the Credit Facility to partially fund the acquisition of the Shell Foothills Assets, repay the existing $50.0 million term debt facility with AIMCo in full, fund letters of credit required for existing and purchased assets, and to satisfy all fees and expenses associated with the Credit Facility and Acquisition. Please refer to Note 12 of the Financial Statements.

As at December 31, 2019 the Company was in compliance with all covenants.

Working Capital and Capital Structure

Pieridae has dramatically improved its working capital ("WC") from a deficit of $76.0 million at December 31, 2018 to a surplus of $19.1 million at December 31, 2019:

	For the year ended December 31,			
($000s)		**2019**		2018
Cash and cash equivalents	**$**	**9,567**	$	9,112
Restricted cash	**$**	**19,152**	$	8,626
Accounts receivable	**$**	**40,810**	$	16,187
Inventories	**$**	**23,535**	$	-
Prepaid expenses	**$**	**3,535**	$	2,250
Trade and other payables	**$**	**(73,573)**	$	(60,922)
Current portion of term debt	**$**	**-**	$	(50,007)
Current portion of lease liabilities	**$**	**(2,701)**	$	-
Other current liabilities	**$**	**(1,220)**	$	(1,256)
Net working capital (deficit)	**$**	**19,105**	$	(76,010)

This dramatic improvement in WC is primarily attributable to repayment of the $50.0 million AIMCo term debt which was classified as a current liability at December 31, 2018, the acquisition of $23.5 million of inventory as part of the acquisition of the Shell Foothills Assets, as well as the accretive cash flows generated by the assets acquired from Shell.

Substantially all the Company's petroleum and natural gas production is marketed under standard industry terms. The Company is confident in its ability to collect amounts receivable, including those aged over standard terms. Refer to Note 19 of the Financial Statements.

The Company is actively working with its financial advisors to source additional funding, backstopped by the loan guarantees agreed upon in principle with the German government, to allow it to grow its upstream asset base, and to allow it to proceed with construction of the proposed Goldboro LNG Facility. Although there is no guarantee that it will be successful, management believes the Company presents a compelling opportunity to potential lenders and investors due to the status of approvals for the project, the loan guarantees being offered by the German government and the strong potential returns on investment from the Goldboro project. The addition of the Shell upstream and midstream assets further strengthens the investment thesis for Pieridae.

Pieridae's capital strategy is aligned with its business strategy and is focused on ensuring the Company has sufficient liquidity to fund operations and project development. Externally, Pieridae's principal sources of liquidity are the Credit Facility, and additional debt and/or equity offerings. Collectively the Company raised $84.5 million in equity in 2019 and $216.0 million of debt. By virtue of its acquisition of the acquisition of the Shell Foothills Assets, the Company also has a much more robust source of potential liquidity from internal sources.

Capital Resources

As of December 31, 2019, Pieridae's capital structure was comprised of share capital, working capital and term debt, less cash and cash equivalents. The following table summarizes our capital structure at December 31, 2019 and 2018:

	For the year ended December 31,			
($000s)		**2019**		2018
Cash and cash equivalents	**$**	**9,567**	$	9,112
Less: loans and term debt	**$**	**(206,000)**	$	(50,007)
Net cash and cash equivalents (debt)	**$**	**(196,433)**	$	(40,895)
Shareholders' equity	**$**	**104,315**	$	91,748

Sources and Uses of Cash Flows

		For the year ended December 31,		
($000s)		**2019**		2018
Cash flows related to operating activities	**$**	**(51,772)**	$	(8,407)
Cash flows related to investing activities	**$**	**(169,167)**	$	5,173
Cash flows related to financing activities	**$**	**220,425**	$	(8,759)

Cash flows used in operating activities increased from $8.4 million in 2018 to $51.8 million in 2019. This increase is the result of the net loss being $36.7 million higher in 2019 than in 2018. It is also due to the $23.5 million of inventory added to working capital in the Shell asset acquisition.

Cash flows related to investing activities decreased from a $5.2 million source of funds in 2018 to a $169.2 million use of funds in 2019. This change reflects the $165.0 million cash component of the Shell asset acquisition.

Cash flows related to financing activities increased from a net outflow of $8.8 million in 2018, to a net inflow of $220.4 million in 2019. This large inflow again speaks to the various debt and equity issuances used to fund the Shell asset acquisition and repay the $50.0 million AIMCo term debt incurred to close the Ikkuma acquisition.

Share Capital, Warrants and Stock Options Outstanding

As at December 31, 2019 the Company had 157,561,174 common shares outstanding (December 31, 2018: 74,516,594). During the year the Company issued 190,570 common shares pursuant to its share-based compensation program, 70,745,871 common shares as partial consideration associated with financing the Shell acquisition, and 12,108,139 shares in two private placements.

As at December 31, 2019 1,889,755 whole warrants (December 31, 2018: 1,889,755) were outstanding. 1,300,050 expire in May 2020, while the remainder expire in December 2020.

As at December 31, 2019 6,392,072 stock options were outstanding. Exercise prices range from $0.89 to $6.84. During the year 44,115 stock options were exercised for negligible proceeds. Refer to Note 16 of the Financial Statements.

Commitments and Contingencies

The Company has a number of financial obligations entered into during the normal course of business. As at December 31, 2019 these obligations, and the expected timing of their settlement, are detailed below:

($000s)		**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**
Quebec license fees	$	46	46	46	46	46	**230**
Interest on debt	$	30,900	30,900	30,900	24,466	-	**117,166**
Deferred fee	$	-	50,000	-	-	-	**50,000**
Firm transportation	$	8,762	8,113	3,427	1,506	1,968	**23,776**
Total	**$**	**39,708**	**89,059**	**34,373**	**26,018**	**2,014**	**191,172**

Contingencies

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favor, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceeding related to these and other matters or any amount which it may be required to pay by reason thereof would have a material adverse impact on its financial position or results of operations.

Off Balance Sheet Transactions

We do not have any financial arrangements that are excluded from the Financial Statements as at December 31, 2019 nor are any such arrangements outstanding as of the date of this MD&A.

Fourth Quarter 2019 Operating and Financial Results

	For the quarter ended December 31,			
($000s except production and pricing)		**2019**		2018
Total daily production				
Natural gas (mcf/day)		**204,262**		102,952
NGL's (boe/day)		**5,190**		-
Condensate (boe/day)		**2,923**		295
Sulphur (Ton/day)		**938**		333
Total production (boe/day)		**42,137**		17,509
Realized Prices				
Natural gas ($/mcf)	**$**	**1.91**	$	1.57
NGL's ($/boe)	**$**	**10.02**	$	-
Condensate ($/boe)	**$**	**58.34**	$	77.27
Sulphur ($/Ton)	**$**	**(1.36)**	$	93.15
Petroleum and natural gas revenue per boe	**$**	**14.60**	$	12.53
Operating expenses per boe	**$**	**(8.50)**	$	(13.64)
Transportation expense per boe	**$**	**(0.79)**	$	(1.07)
Operating netback per boe (1)	**$**	**6.30**	$	(2.07)
Financial Results				
Revenues, net of royalties	**$**	**60,451**	$	2,433
Operating expenses	**$**	**(32,949)**	$	(2,627)
Transportation expenses	**$**	**(3,077)**	$	(206)
Net operating income (loss) (1)		**24,425**		(400)
Administrative expenses	**$**	**8,478**	$	2,252
Development expenses	**$**	**805**	$	4,187
Impairment	**$**	**19,731**	$	-
Depletion and depreciation	**$**	**10,044**	$	651
Financial (income) and expenses	**$**	**10,562**	$	51
Other	**$**	**682**	$	1,331
Net loss	**$**	**(25,877)**	$	(8,871)
Cash used in operating activities	**$**	**(17,681)**	$	(4,485)
Adjusted funds flow from operations (1)	**$**	**14,448**	$	(4,009)

(1) Non-IFRS measures, refer to the "Non-IFRS measures" section of this MD&A

The comparatives between Q4, 2018 and Q4, 2019 highlight the transformation undergone by the Company during that period of time. In Q4 2018 Pieridae acquired Ikkuma, transforming the Company from a development company to an operating exploration and production company. Since the acquisition closed on December 20, 2018, the Q4, 2018 results only reflect 11 days of operations. As a result, per unit metrics are comparable, but revenues and expenses are less so. Q4 2019 reflects the Company's acquisition of Shell's Foothills assets. This transaction closed on October 16, 2019.

Q4 2019 production was 42,137 boe/day (Q4, 2018 17,509 boe/day). Natural gas was the largest component at 34,044 boe/day, representing approximately 81% of total production. NGL's were 5,190 bbl/day, 12%, and condensate was 2,923 bbl/day, 7%. Year over year increases in petroleum and natural gas sales, royalties, operating expenses and transportation expenses all reflect the Company's growth during the year. As a result, NOI grew from a loss of $0.4 million in Q4 2018 to income of $24.4 million in Q4 2019.

Realized natural gas prices were $1.91/mcf in Q4 2019 versus $1.57/mcf in Q4 2018. Overall petroleum and natural gas revenues per boe increased from $12.52/boe in Q4 2018 to $14.60/boe in Q4 2019. The growth in overall production caused operating costs/boe to decrease from $13.64/boe in Q4 2018 to $8.50/boe in Q4 2019. Transportation expenses also benefitted from the growth in production and decreased from $1.07/boe in Q4 2018 to $0.79/boe in Q4 2019. Overall netback per boe increased from a loss of $2.08/boe in Q4 2018 to a profit of $6.20/boe in Q4 2019.

Administrative expenses grew 276% from Q4 2018 to Q4 2019. During the period the Company grew from a small compliment of staff in Q4 2018 to over three hundred employees in Q4 2019, along with the increased administrative burden of the Company's larger and more complex operations.

Development expenses decreased by $3.4 million from Q4 2018 to Q4 2019. The integration of the Shell Foothills Assets took attention and resources from LNG development activities in Q4 2019.

Depletion and depreciation increased from $651 thousand in Q4 2018 to $10.0 million in Q4 2019, reflecting the increase in production and reserves base between the periods.

Financial income and expenses increased from $51 thousand in Q4 2018 to $10.6 million in Q4 2019. The increase is the result of the interest costs associated with debt used to finance both the Ikkuma acquisition and the Shell Foothills Asset acquisition. $50.0 million of term debt was used to fund the Ikkuma purchase, and a $206.0 million Credit Facility was used to repay the original $50.0 million of AIMCo term debt as well as fund a portion of the Acquisition.

Summary of Quarterly Results

The Company's quarterly results have fluctuated significantly from quarter to quarter due to the and evolution of Pieridae's operations, as demonstrated in the table below:

($000s, except per share amounts)		**Q4 2019**	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenues, net of royalties	**$**	**60,451**	13,130	13,387	22,982	2,432	215	66	16
Operating expenses	**$**	**32,949**	14,365	13,528	16,194	5,093	2,018	1,575	1,013
Administrative expenses	**$**	**8,478**	3,676	3,738	4,032	3,971	1,707	1,759	1,682
Net loss attributable to equity holders	**$**	**(25,873)**	(13,178)	(19,530)	(12,996)	(8,848)	(20,368)	(2,711)	(2,942)
Net loss per share attributable to equity holders (basic and diluted)	**$**	**(0.18)**	(0.15)	(0.23)	(0.17)	(0.17)	(0.40)	(0.05)	(0.06)
Working capital (deficit)	**$**	**19,105**	(76,010)	(77,892)	(66,192)	(84,061)	(52)	4,981	8,098
Net operating income (loss) [(1)]	**$**	**24,425**	(2,732)	(1,958)	5,159	(400)	-	-	-
Cash used in operating activities	**$**	**(17,681)**	(238)	(16,702)	(17,084)	(4,485)	(3,171)	(1,753)	(2,148)
Adjusted funds flow from operations [(1)]	**$**	**14,448**	(7,665)	(14,358)	342	(4,009)	-	-	-

(1) Non-IFRS measures, refer to the "Non-IFRS measures" section of this MD&A. The Company only had active operations commencing in Q4 2018.

In Q1 2018, Q2 2018 and Q3 2018 the operating and administrative expenses of Pieridae reflected its purchase, in Q4, 2017, of Quebec based Petrolia which had undeveloped upstream properties. In Q3 2018, Pieridae recognized an impairment on some of those Quebec assets which resulted in an increase in the net loss. In Q4 2018, Pieridae acquired upstream producer, Ikkuma, which results in eleven days of revenue and costs being recognized for that operation. Q1 2019 shows the full impact of the Ikkuma acquisition. The Company recognized a full quarter of operating revenues and expenses related to the related upstream production. Q2 2019 and Q3 2019 reflect these circumstances as well, however, they also show the impact of falling natural gas prices, and their impact on revenues. Q4 2019 proved to be a transformational quarter in the Company's history as it closed the acquisition of Shell's Foothills Assets. The immediate impact of growing production, increased sales of NGL's and the growth in third-party processing, due to the midstream component of the assets, are fully evident from Q3 2019 to Q4 2019. However, impairment of $19.7 million adversely impacted results. The significant expansion and evolution of the Company over the past two years makes certain historical results less relevant to assessing future operating results and should not be relied upon to estimate future financial results.

Financial Instruments and Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of Pieridae'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. Financial risks are discussed in Note 19 of the Financial Statements.
The Company updated its hedging program in October 2019 in order to mitigate its exposure to prices fluctuations on its natural gas and condensate sales. There is no guarantee that these hedges will protect the Company from future financial losses.

Business Risks and Uncertainties

The Company monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. In addition, Pieridae maintains a level of liability, property and business interruption 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. Risk to Pieridae's business and operations include, but are not limited to:

- Weakness in the oil and gas industry
- Additional financing requirements
- Liquidity
- Access to capital
- Share price volatility
- Impact of future financing on Pieridae's market price
- Competition
- Environmental incidents
- Climate change
- Epidemics or pandemics
- Pricing, markets, and the marketing of crude oil and gas
- Exploration, development and production risk
- Availability and cost of material and equipment
- Insurable risks
- Operational dependence
- Risks inherent to gathering and processing facilities and pipelines
- Possible failure to realize the anticipated benefits of acquisitions
- Large capital project risks
- Conflicts of interest
- Permits, licenses and approvals
- Title to property
- Litigation
- Regulatory
- Carbon pricing
- Liability management
- Royalty regimes
- Hydraulic fracturing
- Variations in foreign exchange and interest rates
- Hedging
- Tax horizon
- Third party credit risk
- Political, geo-political and social risks
- Land claims
- Growth management
- Reliance on key personnel
- Cost of new technologies
- Alternatives to, and changing demand for petroleum products
- International protocols

- Climate change regulations
- Reserves and resource estimates
- Reserve and resource replacement
- Internal controls
- Dividends
- Dilution
- Breach of confidentiality
- Information technology and cyber security
- Reputational risk
- Forward looking statement and information may prove inaccurate

See "Forward-Looking Statements" in this MD&A and "Risk Factors" in Pieridae's most recent Annual Information Form for fulsome discussion and additional information regarding the risks to which Pieridae's business and operations are subject.

Environmental, Social and Governance Commitment

A growing number of companies are taking ESG issues more seriously than ever because there is recognition that companies that focus on ESG and creating long-term value perform better over time. Much of this is driven by a united demand from employees, investors and customers. These groups have shifted from a passive to more active stance and are forcing companies to step up efforts against climate change and social injustice. Many feel companies must capitalize on strategic, operational and reporting functionalities they already have in place in order to better assess risk and put a value on the impact to assets.

In parallel, ESG practices such as understanding risks, reducing waste, using resources effectively and ensuring compliance will help companies uncover cost efficiencies. Understanding ESG factors that are material to our business and to key stakeholders is a core ESG practice which is key to identifying and integrating ESG into the business and strategy. In this sense, embracing sustainability is twofold: supporting the resilience of the business, while enabling positive social and environmental impacts.

ESG is fundamental to Pieridae's ability to create long term shareholder value; it starts with tone at the top, creating a business environment where our Board, senior leadership, and employees are empowered and aligned toward the Company's targets. Pieridae recognizes the importance of our relationships with the communities in which we operate, and have aligned our ESG goals and framework toward those relationships.

Specifically, our 2020 goals, against which a portion of management compensation is measured, contain specific and measurable ESG targets. The table below reflects a number of areas that Pieridae is focused on as part of its ESG program:

Key Sustainability Topic/Risk	Management Goal, Process, Controls and Measurement	Progress
Environmental		
Sulfate aerosol (SO2/H2S) emission management Risk of regulatory or environmental incident or air quality performance failure due to high sulfate aerosol releases.	• Pieridae is committed to ensuring its operations have minimal impact to the air quality near its facilities and operates continuous air monitoring stations at its large gas plants.	**Neutral to Positive** • Pieridae undertakes a comprehensive air monitoring program as per EPEA and other regulatory requirements.
Greenhouse gas emission deduction Methane (CH4) is a primary GHG which is considered "fugitive" or an unintended leak from facilities. CH4 has the highest global warming potential thus impacts to emission reductions are also higher.	• Management is committed to establishing a baseline and targeting reduction in the emission of CH4 from its facilities through increased monitoring, process improvements, and equipment upgrades. • In January 2020, Pieridae formalized its corporate Fugitive Emissions Management Plan (FEMP) and Methane Reduction Retrofit Compliance Plan (MRRCP).	**Positive** • Since 2018, a total of 58 pneumatic pumps have been replaced, and the program has produced approximately 18,418 carbon offset credits (tonnes of C02 equivalent). • Pieridae will continue this program and we anticipate tripling this reduction over the next several years.

Key Sustainability Topic/Risk	Management Goal, Process, Controls and Measurement	Progress
Water usage reduction Fresh water usage has become a central issue for many oil and gas producers in western Canada.	• Reduction in future water use through conventional (non-hydraulic stimulation) drilling in the Foothills. • The production of non-hydraulic fractured gas may allow us to certify our sales under a number of "green-gas" programs which may allow us to obtain a price premium over market prices. • Water usage is relatively high at the Company's three main gas plants, which Pieridae is committed to reducing. Management is committed to establishing a baseline and targeting reduction in water use.	**Neutral to Positive** • Signed an evergreen contract with Shell to address site-specific ground pollution at the two largest and oldest plants in the current asset portfolio. Shell and Pieridae are committed to ensuring that the site is free of contaminants. • Developing a conventional drilling plan which vastly reduces the water required for hydraulic fracturing.
Social		
First Nations Engagement Risk that First Nations don't feel they are benefitting from the Goldboro LNG Project nor Alberta gas reserves development & partnerships.	• Pieridae maintains ongoing, direct Treaty 7 engagement to discuss potential partnerships. • Developing an Indigenous People Principles document which will be adhered to.	**Neutral to positive** • Positive, initial partnership discussions with Stoney Nakoda. • Building on the ratified Mi'kmaq Benefits Agreement, developing a positive relationship with Mi'kmaq Chief Terry Paul.
Stakeholder Engagement Pieridae is working with landowners concerns through asset transfer process/post AER decision. We are continuing to strengthen positive and trusting relationships with landowners through ongoing engagement	• Ongoing, annual development of Pieridae Engagement Plan (matrix & SWOT). • Commitment to following AER asset transfer approval conditions, develop tracking mechanism as part of the consultation record. • Pieridae a clear legacy policy that highlights how to achieve Pieridae financial support. • Community liaison officers ("CLO") live & work in local communities, constantly building relationships & Pieridae brand.	**Neutral** • Answered asset transfer SOCs thoroughly. • Direct, timely landowner & stakeholder engagement. • Formal Engagement Plan to be completed in 2020. • Legacy financial policy continues to build community goodwill. • Local CLO community presence has demonstrated value mitigating current & future issues.
Workforce Health and Safety Risk of injuries, fatalities and other safety concerns due to inadequate controls, processes and training, including currently heightened risk to workers due to the ongoing pandemic.	• Pieridae Tracks and reports total recordable injury frequency (TRIF) and lost-time injury frequency (LTIF). Focus is to improve proactive behaviours and reporting to maintain a low injury frequency. • 0 Fatalities, 0.72 TRIF (total recordable injury frequency) < <1.0 in 2019. • HS&E targets are tied to bonus structure. • HS&E statistics are communicated company wide on a monthly basis to preserve a good safety culture and transparency. • Dedicated HS&E team in the field working directly with front-line workers and supervisors.	**Positive** • Integration of safety systems; process framework, and controls is underway. • Integration activity will result in an effective Safety Management & Loss System for employees and contractors. • Continued learning from incidents shared with entire company through safety hub and safety alerts. • Training & competency management will remain a focus.

Key Sustainability Topic/Risk	Management Goal, Process, Controls and Measurement	Progress
Governance		
Board and Executive Diversity Risk of non optimal management and Board decision making from lack of diversity of opinions, experiences and perspectives.	• Pieridae's Board of Directors is committed to increasing the diversity of the Board and Executives of Pieridae.	**Neutral** • Nominations to the Board of Directors suggest increasing diversity. • Increased disclosure of diversity in the Company's 2019 Management Information circular. • Evolving Human Resources and recruitment policies and procedures.
Critical Incident Management The release of hydrocarbons or other hazardous substances as a result of accidents could have significant ESG consequences.	• Pieridae has a comprehensive corporate emergency response plan (ERP) with site-specific ERPs and an emergency response assistance program (ERAP) in place. • Participates in the Alberta Government Wildfire Management Plan. • Ongoing emergency training held in the field at each of the assets.	**Neutral** • Practices and procedures are in place to effectively handle emergencies and minimize the risk of negatively impacting the environment, people and communities in which it operates. • An established emergency management program promotes prompt and effective response to emergencies.

We recognize that operating our business sustainably requires transparency with our stakeholders about our ESG performance and overall performance. These goals are intended to support this performance, and we commit to updating our stakeholders regularly.

Related Party Transactions

The Company's related parties include key management personnel, as described below. None of the transactions with related parties involve special terms or conditions, and no guarantees were given or received. Outstanding balances are usually settled in cash or shares. Key management personnel compensation includes the following:

	For the year ended December 31,					
($000s)		**2019**		2018		2017
Salaries and employee benefits	**$**	**2,107**	$	1,309	$	520
Director's fees	**$**	**286**	$	239	$	35
Total short-term employee benefits	**$**	**2,393**	$	1,548	$	555
Share-based compensation	**$**	**1,005**	$	1,869	$	450
Fees	**$**	**-**	$	52	$	63
Total compensation	**$**	**3,398**	$	3,469	$	1,068

During the year, no options granted under the stock option plan were exercised by key management personnel of the Company.

Use of Judgements and Estimates

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of 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. Significant judgments and estimates made by management in the preparation of these financial statements are outlined below.

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

Identification of Cash Generating Units

Some of Pieridae's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash inflows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

Impairment of Petroleum and Natural Gas Assets

For the purposes of determining whether impairment of petroleum and natural gas assets has occurred, and the extent of any impairment or its reversal, the key assumptions the Company uses in estimating future cash flows are forecasted petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amounts of assets. Impairment charges and reversals are recognized in profit or loss.

Exploration and Evaluation Assets

The application of the Company's accounting policy for exploration and evaluation requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing commercial viability and technical feasibility.

Deferred Taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amount recognized in income or loss for the period in which the change occurs.

Debt Instruments

Debt instruments are initially recognized at fair value based on consideration received and adjusted in respect of any transaction costs that are incremental and directly attributable to the issue of the instrument. Subsequent measurement is at amortized cost and the effective interest rate method. Certain financing arrangements contain options which may revise future estimated cash outflow and result in an adjustment to the carrying value of the financial liability. At each reporting period, the Company will estimate whether such options will be exercised and if an adjustment to the financial liability is required. All adjustments arising from such changes in estimates are recognized immediately in profit or loss.

Assessment of Going Concern

Pieridae concluded there are no material uncertainties related to events or conditions that may cast significant doubt upon its ability to continue as a going concern. In reaching this conclusion, the Company uses significant judgement and estimates, and considered all relevant information, including feasibility of and effectiveness of management's mitigation plans. Accordingly, actual circumstances will differ from those estimates and the variation may be material.

Critical Accounting Estimates

The following are the key assumptions concerning the sources of estimating uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

Reserves

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological, engineering, and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's property, plant and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Pieridae's petroleum and natural gas interests are independently evaluated by qualified reserve evaluators at least annually.

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

Business Combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves acquired. Various valuation techniques are applied for measuring fair value including market comparables and discounted cash flows which rely on assumptions such as forward commodity prices, reserves and resources estimates, production costs and discount rates. Changes in any of these variables could significantly impact the carrying value of the net assets.

Decommissioning Obligations

The Company estimates future decommissioning and remediation costs of production facilities, processing facilities, wells and pipelines at the end of their economic lives. In most instances, abandonment and reclamation of these assets occurs many years into the future. This requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating costs, future removal technologies in determining the removal cost, inflation and liability-specific discount rates to determine present value of these cash flows.

Share Based Payments

All equity-settled, share-based awards issued by the Company are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, weighted average expected life of the instrument, expected dividend yield, risk-free interest rate and estimated forfeitures at the initial grant date.

Financial Derivatives

Financial derivatives are measured at fair value on each reporting date. The Company uses quoted commodity prices at period end to determine the fair value of outstanding financial derivatives. Changes in market pricing between period end and settlement of the derivative contracts could have a significant impact on financial results related to the financial derivatives.

Deferred Taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

Changes in Accounting Policies

The Company has applied the following new and revised accounting pronouncements in preparing the Financial Statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 Leases

Pieridae adopted IFRS 16 Leases on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of comparative financial information as it recognizes the cumulative effect on transition as an adjustment to opening retained earnings and applies the standard prospectively. Comparative information in the Company's Financial Statements have not been restated. The cumulative effect of initial application of the standard was to recognize a $2.7 million increase to right-of-use assets ("ROU assets") and a $2.7 million increase to lease obligations. Initial measurement of the lease obligation was determined based on the remaining lease payments at January 1, 2019, using a variety of incremental borrowing rates specific to the respective assets. The weighted average rate applied on transition for all lease liabilities was 4.97%. The lease assets were initially recognized at an amount equal to the lease obligations. The lease assets and lease obligations recognized largely relate to the Company's head office lease in Calgary and vehicle leases for field staff.

The adoption of IFRS 16 using the modified retrospective approach allowed the Company to use the following practical expedients in determining the opening transition adjustment:

- leases with a term of less than 12 months as at January 1, 2019 were accounted for as short-term leases,
- leases with an underlying asset of low value are recorded as an expense and not recognized as a lease asset,
- leases with similar characteristics were accounted for as a portfolio using a single discount rate.

The Company's accounting policy for leases effective January 1, 2019 is set forth below. Comparative information continues to be accounted for in accordance with the Company's previous accounting policy found in the December 31, 2018 audited financial statements. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation, and corresponding lease asset, are recognized at the commencement of the lease. The present value of the lease obligation is based on the future lease payments and is discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with similar characteristics. The lease asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs, on commencement of the lease. Depreciation is recognized on the lease asset over the shorter of the estimated useful life of the asset or the lease term. Lease payments are allocated between the liability and interest expense. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation.

The preparation of the Financial Statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Management has made the following judgments, estimates, and assumptions related to the accounting for leases. The carrying amounts of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense are based on the implicit interest rate within the lease arrangement or, if this information is unavailable, the incremental borrowing rate. Incremental borrowing rates are based on judgments including economic environment, term, and the underlying risk inherent to the asset.

Policy Applicable before January 1, 2019

A lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to ownership of the related asset to the lessee. Operating lease payments are expensed on a straight-line basis over the life of the lease.

Outlook and Guidance

We now anticipate 2020 NOI in the range of $70 million to $90 million, production of 40,000 to 45,000 boe/day, capital expenditures of $28 million, and investment in Goldboro LNG development expense of $16 million. We anticipate commodities hedging of 55% to 65% of net production on a boe/d basis, and $11.50 to $13.00/boe realized operating costs, not including transportation costs of approximately $0.90/boe.

Non-IFRS Measures

Management has identified certain industry benchmarks such as net operating income, operating netback and adjusted flow of funds from operations to analyze financial and operating performance. These benchmarks are commonly used in the oil and gas industry, however they do not have any standardized meanings prescribed by IFRS. Therefore, they may not be comparable with the calculation of similar measures for other entities.

Net Operating Income

Net operating income equals revenue including realized gains and losses on commodity risk management contracts less royalties, operating expenses and transportation expenses.

	For the quarter ended December 31,				**For the year ended December 31,**			
($000s, except per boe amounts)		**2019**		2018		**2019**		2018
Revenues (net of royalties)	**$**	**60,451**	$	2,433	**$**	**109,950**	$	2,730
Operating expenses	**$**	**32,949**	$	2,627	**$**	**77,036**	$	3,054
Transportation expenses	**$**	**3,077**	$	206	**$**	**7,957**	$	206
Net operating income (loss)	**$**	**24,425**	$	(400)	**$**	**24,957**	$	(530)

Operating Netback

The operating netback equals revenue including realized gains and losses on commodity risk management contracts less royalties, operating expenses and transportation expenses calculated on a per BOE basis. Management considers net operating income and operating netback important measures to evaluate the Company's operational performance as it demonstrates Pieridae's field level profitability relative to current commodity prices.

	For the quarter ended December 31,				For the year ended December 31,			
($ per boe)		**2019**		2018		**2019**		2018
Revenue	**$**	**16.21**	$	13.12	**$**	**13.90**	$	14.66
Royalties	**$**	**(0.62)**	$	(0.48)	**$**	**(0.46)**	$	(0.48)
Operating expenses	**$**	**(8.50)**	$	(13.64)	**$**	**(9.42)**	$	(15.86)
Transportation expenses	**$**	**(0.79)**	$	(1.07)	**$**	**(0.97)**	$	(1.07)
Operating netback per boe	**$**	**6.30**	$	(2.07)	**$**	**3.05**	$	(2.75)

Adjusted Funds Flow from Operations

Pieridae defines adjusted funds flow from operations as its net loss, less financial income and expense, where financial income and expense excludes accretion, less depletion and depreciation. Development expenses are also added back to better focus the metric on the Company's upstream operational performance.

	For the quarter ended December 31,				For the year ended December 31,			
($000s)		**2019**		2018		**2019**		2018
Net loss	**$**	**(25,877)**	$	(8,871)	**$**	**(71,583)**	$	(34,915)
Depletion and depreciation	**$**	**10,044**	$	651	**$**	**21,986**	$	700
Financial (income) and expenses	**$**	**9,745**	$	24	**$**	**13,465**	$	(101)
Development expenses	**$**	**805**	$	4,187	**$**	**9,150**	$	8,801
Impairment	**$**	**19,731**	$	-	**$**	**27,590**	$	16,985
Adjusted Funds Flow from (used in) Operations	**$**	**14,448**	$	(4,009)	**$**	**608**	$	(8,530)

Project Investment

Project investment represents total capital expenditures included in the financial statements plus development expenses. This information is important as it shows Pieridae's total spending on key long-term initiatives.

	For the year ended December 31,			
($000s)		**2019**		2018
Capital expenditures	**$**	**169,167**	$	981
Development expenses	**$**	**9,150**	$	8,801
Total project investment	**$**	**178,317**	$	9,782

Capital expenditures relate primarily to the Company's upstream spending. In 2019 they were dominated by the Shell Foothills Assets Acquisition. Development expenses relate to costs to keep the proposed Goldboro LNG Project on schedule, including the FEED and OBE. Development expenses reflect all expenditures associated with the Company's proposed Facility in Goldboro, Nova Scotia, that are not of a capital nature. This information is important as it shows Pieridae's continued investment in Goldboro, prior to these costs being eligible for capitalization.

Management's Report

The accompanying consolidated financial statements of Pieridae Energy Limited (the "Company") and all other information contained elsewhere in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies described in the accompanying notes. Where necessary, management has made informed judgements and estimates in accounting for transactions that were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as appropriate in the circumstances. The financial information presented elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized and recorded, assets are safeguarded from loss or unauthorized use and financial records are properly maintained to provide reliable information for preparation of financial statements.
Ernst & Young LLP, an independent firm of Chartered Professional Accountants, has been engaged, as approved by a vote of the shareholders at the Company's most recent Annual General Meeting, to audit and provide their independent audit opinions on the following:

- the Company's consolidated financial statements as at and for the year ended December 31, 2019; and
- the effectiveness of the Company's internal control over financial reporting as at December 31, 2019.

Their report is presented with the consolidated financial statements. The Board of Directors (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through the Audit Committee of the Board, which is comprised entirely of independent directors. The Audit Committee meets with management and the independent auditors to satisfy itself that management responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board for approval. The consolidated financial statements have been approved by the Board on the recommendation of the Audit Committee.

(signed)
Alfred Sorensen
Chief Executive Officer

(signed)
Robert Dargewitcz
Chief Financial Officer

Calgary, Alberta, Canada
April 15, 2020

Independent Auditor's Report

To the Shareholders of Pieridae Energy Limited

Opinion

We have audited the consolidated financial statements of Pieridae Energy Limited (the Company), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

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

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

We obtained Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Ernst + Young LLP

Calgary, Canada

April 15, 2020

PIERIDAE ENERGY

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)		December 31, 2019	December 31, 2018
Assets			
Current			
Cash and cash equivalents	(Note 7)	**$ 9,567**	$ 9,112
Restricted cash	(Note 7)	**19,152**	8,626
Accounts receivable	(Note 19)	**40,810**	16,187
Prepaid expenses and deposits		**3,535**	2,250
Inventories		**23,535**	-
		96,599	36,175
Restricted cash equivalents	(Note 7)	**-**	1,000
Security deposits		**600**	600
Interests in associates	(Note 23)	**3,710**	3,722
Property, plant and equipment	(Note 8)	**495,048**	301,603
Exploration and evaluation assets	(Note 9)	**1,077**	27,573
Right-of-use assets	(Note 10)	**5,440**	-
		$ 602,474	$ 370,673
Liabilities			
Current			
Accounts payable and accrued liabilities	(Note 19)	**$ 73,573**	$ 60,922
Current portion of term debt	(Note 12)	**-**	50,007
Fair value of risk management contracts		**45**	-
Current portion of lease liabilities	(Note 11)	**2,701**	-
Other amounts payable		**1,175**	1,256
		77,494	112,185
Other amounts payable		**8,364**	8,504
Term debt	(Note 12)	**202,913**	-
Decommissioning obligations	(Note 13)	**206,520**	158,236
Lease liabilities	(Note 11)	**2,868**	-
		498,159	278,925
Share capital	(Note 14)	**274,799**	193,270
Contributed surplus		**10,458**	8,960
Other comprehensive income		**2,363**	1,240
Warrants		**933**	933
Deficit		**(184,076)**	(112,503)
Equity attributable to equity holders of the company		**104,477**	91,900
Non-controlling interests		**(162)**	(152)
Total shareholders' equity		**104,315**	91,748
		$ 602,474	$ 370,673

Related party transactions (Note 21)
Commitments (Note 22)
Subsquent event (Note 24)

Approved on behalf of the Board of Directors:

(signed) Charles Boulanger

Chair, Audit Committee

PIERIDAE ENERGY

Consolidated Statements of Loss and Comprehensive Loss

In thousands of Canadian dollars (except share and per share amounts)		Year ended December 31, 2019	2018
Revenues			
Petroleum and natural gas	(Note 15)	**$ 104,910**	$ 2,413
Royalties		**(3,755)**	(92)
		101,155	2,321
Other income		**2,665**	409
Third party processing	(Note 15)	**6,831**	-
		110,651	2,730
Realized loss on risk management contracts		**(657)**	-
Unrealized loss on risk management contracts		**(44)**	-
		109,950	2,730
Expenses			
Operating expenses		**77,036**	3,054
Administrative expenses		**19,924**	4,788
Development expenses		**9,150**	8,801
Transportation expenses		**7,957**	206
Impairment of exploration and evaluation assets	(Note 9)	**27,590**	16,985
Share-based compensation	(Note 16)	**1,498**	3,164
Loss (gain) on foreign exchange		**36**	4
Depletion and depreciation	(Notes 8 & 10)	**21,986**	700
Financial (income) expense	(Note 17)	**16,424**	(48)
Share of net loss of associates	(Note 23)	**12**	12
Gain on disposal		**(80)**	-
		181,533	37,666
Net loss before taxes		**(71,583)**	(34,936)
Deferred income tax recovery	(Note 18)	**-**	(21)
Net loss for the year		**(71,583)**	(34,915)
Other comprehensive income (loss), net of income tax			
Foreign currency translation gain (loss)		**1,123**	(343)
Total comprehensive loss for the year		**$ (70,460)**	$ (35,258)
Net loss attributable to			
Equity holders of the Company		**(71,573)**	(34,870)
Non-controlling interests		**(10)**	(45)
Net loss per share attributable to equity holders of the Company			
Basic	(Note 14)	**$ (0.73)**	$ (0.68)
Diluted		**$ (0.73)**	$ (0.68)
Weighted average number of common shares			
Basic	(Note 14)	**98,622,426**	51,274,159
Diluted		**98,622,426**	51,274,159

Consolidated Statements of Changes in Equity

(In thousands of Canadian dollars except share amounts)		Share Capital	Warrants	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total Equity attributable to equity holders	Non-controlling interests	Total Equity
As at December 31, 2017	(Note 14)	**$ 128,804**	**$ -**	**$ 6,715**	**$ (77,633)**	**$ 1,583**	**$ 59,469**	**$ (107)**	**$ 59,362**
Share-based compensation		189	-	2,245	-	-	2,434	-	2,434
Common shares issued on stock option exercise		143	-	-	-	-	143	-	143
Common shares and warrants issued on private placement		8,020	444	-	-	-	8,464	-	8,464
Common shares issued on acquisition of Ikkuma Resources Corp.		56,114	489	-	-	-	56,603	-	56,603
Non-controlling interest		-	-	-	-	-	-	(45)	(45)
Net loss attributable to equity holders of the company		-	-	-	(34,870)	(343)	(35,213)	-	(35,213)
As at December 31, 2018	(Note 14)	**$ 193,270**	**$ 933**	**$ 8,960**	**$ (112,503)**	**$ 1,240**	**$ 91,900**	**$ (152)**	**$ 91,748**
Share-based compensation		149	-	1,498	-	-	1,647	-	1,647
Common shares issued on stock option exercise		-	-	-	-	-	-	-	-
Common shares and warrants issued on private placement		21,382	-	-	-	-	21,382	-	21,382
Share issue costs		(865)	-	-	-	-	(865)	-	(865)
Common shares issued on Shell Acquisition		63,169	-	-	-	-	63,169	-	63,169
Issue costs		(2,306)	-	-	-	-	(2,306)	-	(2,306)
Net loss attributable to equity holders of the company		-	-	-	(71,573)	1,123	(70,450)	(10)	(70,460)
As at December 31, 2019	(Note 14)	**$ 274,799**	**$ 933**	**$ 10,458**	**$ (184,076)**	**$ 2,363**	**$ 104,477**	**$ (162)**	**$ 104,315**

PIERIDAE ENERGY

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)		Year ended December 31, **2019**	2018
Operating activities			
Net loss		$ **(71,583)**	$ (34,915)
Depreciation		**-**	-
Depletion and depreciation	(Notes 8 & 10)	**21,986**	700
Amortization of financing fees	(Note 12)	**2,912**	-
Deferred tax recovery		**-**	(21)
Share-based compensation	(Note 16)	**1,498**	3,164
Amortization of deferred lease inducements		**(21)**	(10)
Impairment of exploration and evaluation assets	(Note 9)	**27,590**	16,985
Loss on settlement of term loan		**416**	-
Accretion	(Note 13)	**2,959**	53
Share of net loss of associates	(Note 23)	**12**	12
Other accounts payable		**-**	(108)
Gain on disposal		**(80)**	-
Decommissioning expenditures	(Note 13)	**(1,458)**	-
Unrealized loss on risk management contracts		**44**	-
Foreign exchange (gain) loss		**36**	4
Changes in non-cash working capital	(Note 20)	**(36,083)**	5,729
Cash used in operating activities		**(51,772)**	(8,407)
Investing activities			
Additions to property, plant and equipment	(Note 8)	**(2,048)**	(503)
Addition of Shell Assets	(Note 5)	**(166,122)**	-
Additions to exploration and evaluation assets	(Note 9)	**(1,077)**	(478)
Proceeds from disposal of property, plant and equipment		**80**	-
Business acquisition, net cash received		**-**	6,154
Cash (used in) provided by investing activities		**(169,167)**	5,173
Financing activities			
Issuance of share capital, net of costs	(Note 14)	**81,031**	8,163
Payment of closing fee	(Note 12)	**(6,000)**	-
Restricted cash	(Note 7)	**(9,526)**	(1,000)
Increase in bank debt	(Note 12)	**216,000**	50,000
Repayment of bank debt	(Note 12)	**(60,003)**	(65,897)
Payments on lease obligations	(Note 11)	**(1,077)**	-
Repayment of promissory notes		**-**	(25)
Cash provided by (used in) financing activities		**220,425**	(8,759)
Decrease in cash and cash equivalents		**(514)**	(11,993)
Cash and cash equivalents, beginning of year		**9,112**	21,238
Effect of foreign exchange on cash		**969**	(133)
Cash and cash equivalents, end of year		$ **9,567**	$ 9,112
Cash paid:			
Interest		$ 65	$ 543
Income taxes		194	-

Notes to the Consolidated Financial Statements

1. Corporate Information

Pieridae Energy Limited (the "Company" or "Pieridae") is a publicly traded, Canadian based Company in the business of developing, producing and processing natural gas, and the production of natural gas liquids ("NGL's"). It is also engaged in the development of a fully integrated liquefied natural gas ("LNG") project to be built in Goldboro, Nova Scotia. The common shares of Pieridae trade on the Toronto Venture Exchange ("TSX") under the symbol PEA.V.

The Company was incorporated on May 29, 2012 under the laws of Canada. It is headquartered at 3100, 308 - 4th Avenue SW, Calgary, Alberta, T2P 0H7.

These consolidated financial statements reflect only the Company's proportionate interest in such activities and are comprised of the Company and its subsidiaries. During 2014, the Company, Pieridae Energy (Canada) Ltd. and Uniper Global Commodities S.E. ("Uniper") entered into an agreement, whereby Uniper acquired a 1.0% ownership interest in Goldboro LNG LP and Pieridae Energy (Canada) Ltd. As at December 31, 2019 the ownership interest of Uniper was 0.8% (December 31, 2018: 0.8%).

The consolidated financial statements were approved by the Board of Directors of Pieridae on April 15, 2020.

2. Basis of presentation

Basis of measurement and statement compliance

The consolidated financial statements have been prepared on a historical cost basis with some exceptions, as detailed in the accounting policies set out below in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Except for the changes described in Note 4, these accounting policies have been applied consistently for all periods presented in these consolidated financial statements. During 2019 the Company elected to report development expenses. Development expenses reflect amounts previously included in operating expenses and administrative expenses. This incremental disclosure necessitated changes to the prior year comparatives. Consequently, comparative amounts have been reclassified to match the current period presentation.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Company and its subsidiaries is Canadian dollars. All financial information is rounded to the nearest thousand, except per share amounts or where otherwise indicated.

Use of judgements and estimates

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of 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. Significant judgments and estimates made by management in the preparation of these financial statements are outlined below.

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

(i) Identification of cash generating units

Some of Pieridae's assets are aggregated into cash-generating units ("CGU"), for the purpose of calculating depletion and impairment. A CGU is comprised of assets that are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

(ii) Impairment of petroleum and natural gas assets

For the purposes of determining whether impairment of petroleum and natural gas assets has occurred, and the extent of any impairment or its reversal, the key assumptions the Company uses in estimating future cash flows are forecasted petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amounts of assets. Impairment charges and reversals are recognized in profit or loss.

(iii) Exploration and evaluation assets
The application of the Company's accounting policy for exploration and evaluation requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing commercial viability and technical feasibility.

(iv) Deferred taxes
Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amount recognized in income or loss for the period in which the change occurs.

(v) Debt Instruments

— Debt instruments are initially recognized at fair value based on consideration received and adjusted in respect of any transaction costs that are incremental and directly attributable to the issue of the instrument. Subsequent measurement is at amortized cost and the effective interest rate method. Certain financing arrangements contain options which may revise future estimated cash outflow and result in an adjustment to the carrying value of the financial liability. At each reporting period, the Company will estimate whether such options will be exercised and if an adjustment to the financial liability is required. All adjustments arising from such changes in estimates are recognized immediately in profit or loss.

(vi) Assessment of going concern
Pieridae concluded there are no material uncertainties related to events or conditions that may cast significant doubt upon its ability to continue as a going concern. In reaching this conclusion, the Company uses significant judgement and estimates, and considered all relevant information, including feasibility of and effectiveness of management's mitigation plans. Accordingly, actual circumstances will differ from those estimates and the variation may be material.

Critical accounting estimates
The following are the key assumptions concerning the sources of estimating uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

(i) Reserves
The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological, engineering, and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's property, plant and equipment, the calculation of depletion and depreciation, the provision for decommissioning obligations and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from Pieridae's petroleum and natural gas interests are independently evaluated by qualified reserve evaluators at least annually.

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

(ii) Business combinations
In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves acquired. Various valuation techniques are applied for measuring fair value including market comparables and discounted cash flows which rely on

assumptions such as forward commodity prices, reserves and resources estimates, production costs and discount rates. Changes in any of these variables could significantly impact the carrying value of the net assets.

(iii) Decommissioning obligation

The Company estimates future decommissioning and remediation costs of production facilities, processing facilities, wells and pipelines at the end of their economic lives. In most instances, abandonment and reclamation of these assets occurs many years into the future. This requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating costs, future removal technologies in determining the removal cost, inflation and liability-specific discount rates to determine present value of these cash flows.

(iv) Share-based payments

All equity-settled, share-based awards issued by the Company are fair valued using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates must be made regarding the expected volatility in share price, weighted average expected life of the instrument, expected dividend yield, risk-free interest rate and estimated forfeitures at the initial grant date.

(v) Financial derivatives

Financial derivatives are measured at fair value on each reporting date. The Company uses quoted commodity prices at period end to determine the fair value of outstanding financial derivatives. Changes in market pricing between period end and settlement of the derivative contracts could have a significant impact on financial results related to the financial derivatives.

(vi) Deferred taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

3. Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements and applied consistently to The Company and all its subsidiaries. Certain comparative numbers have been reclassified to conform to the current presentation.

(a) Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies to obtain benefits from its activities. Significant subsidiaries include Pieridae Alberta Production Ltd. (formerly Ikkuma Resources Corp.), Pieridae Energy (Canada) Ltd., Petrolia Anticosti Inc., Goldboro LNG Limited Partnership and Quebec Development Production Limited Partnership. Intercompany balances and transactions are eliminated in preparation of the consolidated financial statements.

These consolidated financial statements reflect only the Company’s proportionate interest in such activities and are comprised of the Company and its subsidiaries. During 2014, the Company, Pieridae Energy (Canada) Ltd. and Uniper Global Commodities S.E. ("Uniper") entered into an agreement, whereby Uniper acquired a 1.0% ownership interest in Goldboro LNG LP and Pieridae Energy (Canada) Ltd. As at December 31, 2019, the ownership interest of Uniper was 0.8% (December 31, 2018 0.8%).

Many of the Company’s oil and natural gas activities involve jointly owned assets. The consolidated financial statements include the Company’s share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

(b) Business combinations

Pieridae accounts for business combinations using the acquisition method when the acquired assets meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the consideration given, including cash and equity, net of the liabilities assumed. The acquired identifiable assets and liabilities assumed are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the net identifiable assets acquired is recognized as goodwill. If the cost of acquisition is below the fair values of the identifiable net assets acquired, the difference is recognized as a bargain purchase gain in the consolidated statements of income or loss. Transaction costs are expensed when incurred.

(c) Inventories

Inventory is primarily comprised of consumables, materials and supplies and is carried at the lower of cost and net realizable value. Cost of inventory consists of purchase costs, and is determined on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(d) Financial instruments

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, term debt, and accounts payable. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Cash and cash equivalents: Cash and cash equivalents comprise cash on hand, term deposits held with banks, other short-term highly liquid investments with original maturities of three months or less and are measured at amortized cost.

Other: Other non-derivative financial instruments, such as accounts receivable, term debt, and accounts payable and accrued liabilities, are measured at amortized cost using the effective interest method, less any impairment losses. Transaction costs related to our term debt are capitalized and amortized as financial expenses over the term of the term debt. For a financial asset or a financial liability carried at amortized cost, transaction costs directly attributable to acquiring or issuing the asset or liability are added to, or deducted from, the fair value on initial recognition and amortized through net income or loss over the term of the financial instrument. Transaction costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability classified as FVTPL are expensed at inception of the contract.

(ii) Derivative financial instruments:

The Company enters into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices, interest rates and the exchange rate between Canadian and Unites States dollars. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit or loss when incurred.

The Company has accounted for its forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the statement of financial position. Settlements on these physical sales contracts are recognized in commodity sales from production and premium on risk management activities.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through earnings. Changes in the fair value of separable embedded derivatives are recognized immediately in earnings.

(iii) Share capital:

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

(e) Property, plant and equipment

(i) Recognition and measurement

Exploration and evaluation ("E&E") assets:

Costs incurred prior to obtaining the right to explore a mineral resource are recognized as an expense in the period incurred. E&E activities comprise the Company's exploration and evaluation projects which are pending determination of technical feasibility and commercial viability.

E&E expenditures are initially capitalized and may include mineral license acquisitions, geological and geophysical evaluations, technical studies, exploration drilling and testing and directly attributable general and administrative costs. Tangible assets acquired, which are consumed in developing an intangible exploration asset, are recorded as part of the cost of the exploration asset. The costs are accumulated in cost centers by exploration area pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource in an exploration area is generally considered to be determinable when economical quantities of proved and probable reserves have been discovered. A review of each exploration area is carried out at each reporting date to ascertain whether reserves have been discovered. Upon determination of commercial proved and probable reserves, associated exploration costs are transferred from exploration and evaluation to property, plant and equipment as reported on the Consolidated Statements of Financial Position. Exploration and evaluation assets are reviewed for impairment prior to any such transfer. Assets classified as E&E are not subject to depletion and depreciation until they are classified to property, plant and equipment.

E&E assets are assessed for impairment if: (a) sufficient data exists to determine technical feasibility and commercial viability; (b) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to related CGUs.

Development and production costs:
Items of property, plant and equipment, which include oil and gas development and production costs, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Property, plant and equipment include land and lease acquisition costs, geological and geophysical costs, costs of drilling and equipping productive wells, costs for production and processing facilities, decommissioning costs, and other directly attributable administrative costs. Property, plant and equipment are accumulated in cost centres based on CGU's for impairment testing. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).
Gains and losses on disposal of property, plant and equipment, property swaps and farm-outs, are determined by comparing the proceeds or fair value of the asset received or given up with the carrying amount of property, plant and equipment and are recognized in profit or loss.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized petroleum and natural gas assets and equipment generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(ii) Depletion and depreciation:
The net carrying value of property, plant and equipment is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. Future development costs are estimated by taking into account the level of development required to produce those reserves. These estimates are reviewed by independent engineers at least once annually.

Capitalized plant turnaround costs are depreciated on a straight-line basis over the estimated time until the next turnaround is completed. Corporate assets, which include office furniture and equipment, software and computer equipment are depreciated on a straight-line basis over the useful lives of the assets, which are estimated to be five years, or on a declining balance basis of 20 to 30 percent per year.

(f) Impairment

(i) Financial assets:
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired by measuring the asset's expected credit loss ("ECL"). The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. The provision is adjusted as a result of changes in historical default rates, age of balances outstanding and counterparty credit metrics. In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts and evidence of a debtor's present financial condition. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized in the statement of loss. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

(ii) Non-financial assets:
The carrying amounts of the Company's non-financial assets, other than exploration and evaluation and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets or CGU's. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows from proved and probable reserves are discounted to their present value that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is determined as the amount that would be obtained from the disposition of the asset in an arm's length transaction between knowledgeable and willing parties. The petroleum and natural gas future prices used in the impairment test are based on period-end commodity price forecasts estimated by the Company's independent reserves evaluator and are adjusted for petroleum and natural gas differentials, transportation and marketing costs specific to the Company.

Where circumstances change such that an impairment no longer exists or is less than the amount previously recognized, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount as long as the revised estimate does not exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the CGU in prior periods. A reversal of an impairment loss is recognized immediately through income or loss.

(g) Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of a past event, if it is probable the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is significant).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

Provisions are not recognized for future operating losses.

(i) Decommissioning obligations:
The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date using the risk-free interest rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(h) Revenue Recognition
Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. The Company recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the custody transfer point accepted by the customer, often terminals, pipelines or other transportation methods.

The Company evaluates its arrangements with counterparties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

Tariffs and tolls charged to other entities for use facilities owned by the Company are recognized as revenue as they accrue in accordance with the terms of the service or tariff and tolling agreements.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements

(i) Foreign currency transactions

Transactions completed in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated to functional currency at the period-end exchange rate. Revenue and expenses are translated to functional currency using the average exchange rate for the period. Realized and unrealized gains and losses resulting from the settlement or translation of foreign currency transactions are included in net income or loss. Certain subsidiaries of the Company operate and transact primarily in currencies other than the Canadian dollar. The designation of a subsidiary's functional currency is a management judgment based on the currency of the primary economic environment in which the subsidiary operates. The financial statements of each entity are translated into Canadian dollars in preparation of the Company's consolidated financial statements. The assets and liabilities of a foreign denominated operation are translated to Canadian dollars at the period-end exchange rate. Revenues and expenses of foreign denominated operations are translated to Canadian dollars using the average exchange rate for the period. Foreign exchange differences are recognized in other comprehensive income or loss.

(j) Share-based compensation

Equity-settled share-based awards granted by the Company include stock options granted to directors, officers, employees and key consultants. The fair value determined at the grant date of an award is expensed on a graded basis over the vesting period of each respective tranche of an award with a corresponding adjustment to contributed surplus. In calculating the expense of share-based awards, the Company revises its estimate of the number of equity instruments expected to vest by applying an estimated forfeiture rate for each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary, with a final adjustment to reflect the actual number of awards that vest. Upon the exercise of share-based awards, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested share-based awards expire without being exercised, previously recognized compensation costs associated with such rewards are not reversed.

The fair value of equity-settled share-based awards is measured using the Black-Scholes option-pricing model taking into account the terms and conditions upon which the awards were granted. Measurement inputs as at the grant date include: share price, exercise price, expected volatility, weighted average expected life of the instruments, expected dividends and the risk-free interest rate applicable to the term of the award.

(k) Finance income and expenses

Finance expenses comprise service charges, interest expense on term debt and accretion on deferred financing costs and decommissioning obligations. Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in profit or loss using the effective interest rate method. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding term debt during the period.

Interest income is recognized as it accrues in the statements of loss, using the effective interest method

(l) Income tax

Income tax expense comprises current and deferred tax and is recognized in net income or loss except to the extent that it relates to items recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Per share information

Basic earnings per share information is calculated on the basis of weighted average number of common shares outstanding during the period. Diluted per share information reflects the potential dilutive effect of stock options and warrants. No adjustment to diluted net loss per share is made if the result of these calculations is anti-dilutive.

(n) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. On issuance the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes, is recognized on the statement of financial position. As expenditures are incurred, the deferred taxes associated with the renounced tax deductions are recognized through profit and loss along with a pro-rata portion of the deferred premium.

(o) Jointly owned assets

Certain activities of the Company are conducted jointly with others where the participants have a direct ownership interest in jointly owned assets. Accordingly, the accounts of Pieridae reflect only its proportionate share of revenues, expenses and capital expenditures related to these jointly owned assets.

(p) Determination of Fair Value

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

(i) Property, plant and equipment and intangible exploration assets:

The fair value of property, plant and equipment recognized in a business combination is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and exploration assets is estimated with reference to the discounted cash flow expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

(ii) Cash and cash equivalents, accounts receivable, term debt, accounts payable and accrued liabilities:

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities is estimated as the present value of future cash flow, discounted at the market rate of interest at the reporting date. At December 31, 2019 and December 31, 2018, the fair value of these balances approximated their carrying value due to their short term to maturity.

As at December 31, 2018, the fair value of Pieridae's term debt approximated its carrying value due the short-term nature of its maturity. As at December 31, 2019 Pieridae's term debt bears a fixed interest rate and is carried at its amortized cost using the effective interest method.

(iii) Derivatives:

The fair value of financial commodity price risk management contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

(iv) Share options:

The fair value of employee share options is measured using a Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

(v) Measurement:
Pieridae classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Refer to Note 19 of these consolidated financial statements, which provides fair value measurement information for financial assets and liabilities as of December 31, 2019 and December 31, 2018.

(q) Leases
A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation, and corresponding lease asset, are recognized at the commencement of the lease. The present value of the lease obligation is based on the future lease payments and is discounted using the Company's incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with similar characteristics. The lease asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs, on commencement of the lease. Depreciation is recognized on the lease asset over the shorter of the estimated useful life of the asset or the lease term. Lease payments are allocated between the liability and interest expense. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation.

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Management has made the following judgments, estimates, and assumptions related to the accounting for leases. The carrying amounts of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense are based on the implicit interest rate within the lease arrangement or, if this information is unavailable, the incremental borrowing rate. Incremental borrowing rates are based on judgments including economic environment, term, and the underlying risk inherent to the asset.

4. Changes in Accounting Policies

The Company has applied the following new and revised accounting pronouncements in preparing the December 31, 2019 consolidated financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 16 – Leases
Pieridae adopted IFRS 16 Leases on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of comparative financial information as it recognizes the cumulative effect on transition as an adjustment to opening retained earnings and applies the standard prospectively. Comparative information in the Company's consolidated statements of financial position, consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity, and consolidated statements of cash flows has not been restated.

The cumulative effect of initial application of the standard was to recognize a $0.9 million increase to right-of-use assets ("ROU assets") and a $0.9 million increase to lease obligations. Initial measurement of the lease obligation was determined based on the remaining lease payments at January 1, 2019 using a variety of incremental borrowing rates specific to the respective assets. The weighted average rate applied on transition for all lease liabilities was 4.97%. The lease assets were initially recognized at an amount equal to the lease obligations. The lease assets and lease obligations recognized largely relate to the Company's head office lease in Calgary and vehicle leases for field staff. The adoption of IFRS 16 using the modified retrospective approach allowed the Company to use the following practical expedients in determining the opening transition adjustment:

- Leases with a term of less than 12 months as at January 1, 2019 were accounted for as short-term leases
- Leases with an underlying asset of low value are recorded as an expense and not recognized as a lease asset
- Leases with similar characteristics were accounted for as a portfolio using a single discount rate

The Company's accounting policy for leases effective January 1, 2019 is set forth in Note 3.

Policy Applicable before January 1, 2019:
A lease is classified as an operating lease if it does not transfer substantially all of the risks and rewards incidental to ownership of the related asset to the lessee. Operating lease payments are expensed on a straight-line basis over the life of the lease.

New Standards and Interpretation Not Yet Adopted
A number of new standards are effective for annual periods beginning after January 1, 2020 and earlier application is permitted; however the Company has not early adopted the new or amended standards in preparing The Company's consolidated financial statements. The following amended standards and interpretations are not expected to have a significant impact on The Company's consolidated financial statements, on adoption January 1, 2020.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).

5. Business Combination

Effective October 16, 2019 Pieridae closed its acquisition of all of Shell Canada Energy's ("Shell") midstream and upstream assets in the southern Alberta Foothills (the "Shell Assets") for total consideration of $190.0 million (the "Acquisition") in accordance with the terms of the amended and restated purchase and sale agreement dated October 7, 2019 (the "PSA"). Further to the $10.0 million deposit paid on June 25, 2019, Pieridae paid to Shell $165.0 million in cash (net of adjustments) on closing. Pieridae satisfied the balance of the purchase price through the issuance to Shell of 15.2 million common shares of the Company having an aggregate value of $15.0 million determined in accordance with the PSA. Pieridae funded the Acquisition through the issuance of term debt (refer to Note 12 of these consolidated financial statements) and $63.2 million of equity including the $15.0 million of shares issued to Shell. The acquisition was accounted for as a business combination whereby the net assets acquired, and liabilities assumed were recorded at fair value at the acquisition date.

The fair value of petroleum and natural gas properties acquired was determined using estimates of proved reserves as evaluated by an independent reserve evaluator. Asset retirement obligations were also determined by estimating the present value of costs associated with the abandonment and reclamation of the wells and facilities acquired using a range of risk-free discount rates. Transaction costs of $1.5 million were expensed as incurred.

The fair value of Shell Assets acquired was calculated using estimates of proved reserves evaluated at December 31, 2019 by an independent reserves evaluator adjusted for operations between October 16, 2019 and the effective date of the reserve evaluation. Asset retirement obligations were determined using internal estimates of the timing and estimated costs associated with the abandonment and reclamation of the wells, pipelines and facilities acquired using a market discount rate of 0.41%. Material inventories were determined based on the lower of cost and net realizable value. The total consideration paid, and the fair value estimate of assets and liabilities acquired and assumed, are set forth in the table below:

Consideration:		
Cash	$	175,000
Common shares issued		15,000
Total consideration	**$**	**190,000**
Fair value of net assets acquired:		
Materials inventory	$	23,878
Petroleum and natural gas properties		281,689
Asset retirement obligations		(115,567)
Net assets acquired	**$**	**190,000**

The consolidated financial statements include the result of operations from the Shell Assets for the period between October 16 and December 31, 2019. The acquisition contributed revenues of $45.1 million and net earnings of $6.5 million. If the acquisition had occurred on January 1, 2019, management estimates that consolidated revenue would have increased by $171.6 million and consolidated net earnings for the year would have increased by $24.6 million. In determining these amounts, management assumed that the effective interest rate of term debt, and the fair value adjustments that arose on the date of acquisition, would have been the same if the acquisition had occurred on January 1, 2019.

On December 20, 2018, Pieridae completed a plan of arrangement whereby the Company acquired, directly and indirectly, all of the issued and outstanding common shares of Ikkuma Resources Corp. ("Ikkuma"), a publicly traded company engaged in the development and production of petroleum and natural gas resources in the foothills of Alberta and British Columbia. The purchase price was $56.1 million satisfied through the issuance of 21.6 million common shares of Pieridae.

On December 20, 2018, Pieridae completed a plan of arrangement whereby the Company acquired, directly and indirectly, all of the issued and outstanding common shares of Ikkuma Resources Corp. ("Ikkuma"), a publicly traded company engaged in the development and production of petroleum and natural gas resources located in the foothills of Alberta and British Columbia. The acquisition was accounted for as a business combination whereby the net assets acquired, and liabilities assumed were recorded at fair value at the acquisition date. Consideration consisted of the issuance of 21.6 million Pieridae common shares valued at approximately $56.1 million (based on the closing price of Pieridae's common shares of $2.60 on the Toronto Venture Exchange on December 20, 2018).

The fair value of petroleum and natural gas properties acquired at the time of the transaction was determined using estimates of proved plus probable reserves evaluated at December 31, 2018 by an independent reserve evaluator. Asset retirement obligations were determined using internal estimates of the timing and estimated costs associated with the abandonment and reclamation of the wells and facilities acquired using a range of risk-free discount rates. The total consideration paid and estimates of the fair value of the assets acquired and liabilities assumed as at the date of the acquisition are set forth in the table below.

Consideration:		
Common shares issued	**$**	**56,114**
Fair value of net assets acquired:		
Petroleum properties		297,998
Working capital deficiency		(21,239)
Bank debt		(65,673)
Asset retirement obligations		(154,972)
Net assets acquired	**$**	**56,114**

The consolidated financial statements include the result of operations of Ikkuma for the period between December 20 and December 31, 2018. The acquisition contributed revenues of $2.5 million and a net loss of $1.0 million. Had the acquisition occurred on January 1, 2018, revenues would have increased by $80.0 million and the net loss would have increased by $38.1 million. Transaction costs of $1.7 million were expensed as incurred.

6. Segmented Financial Information

Pieridae's reportable segments are determined based on the nature of the underlying operations, and the operations of the separate subsidiaries involved in these activities. The breakdown of the Company's respective lines of business are as follows:

Upstream - The upstream segment is comprised predominantly by the petroleum and natural gas production operations and properties acquired from Shell and Ikkuma (refer to Note 5 of these consolidated financial statements). It also includes the Company's upstream operations in Eastern Canada, and certain corporate overhead activities associated with these operations. Upstream is currently the only segment generating operating revenues.

LNG - The LNG segment contains all activities associated with the development of the Company's proposed LNG facility in Goldboro, Nova Scotia and the majority of Pieridae's corporate overhead activities.

Segmented Information

(In thousands of Canadian dollars)	Upstream 2019	Upstream 2018	LNG 2019	LNG 2018	Consolidated 2019	Consolidated 2018
	Year ended December 31					
Revenue						
Petroleum and natural gas	$ **104,910**	2,413	**-**	-	$ **104,910**	2,413
Royalties	**(3,755)**	(92)	**-**	-	**(3,755)**	(92)
	101,155	2,321	**-**	-	**101,155**	2,321
Other income	**2,665**	409	**-**	-	**2,665**	409
Third party processing	**6,831**	-	**-**	-	**6,831**	-
	110,651	2,730	**-**	-	**110,651**	2,730
Realized loss on risk manangement contracts	**(657)**	-	**-**	-	**(657)**	-
Unrealized gain on risk manangement contracts	**(44)**	-	**-**	-	**(44)**	-
	109,950	2,730	**-**	-	**109,950**	2,730
Expenses						
Operating expenses	**77,036**	3,054	**-**	-	**77,036**	3,054
Administrative expenses	**6,452**	729	**13,472**	4,059	**19,924**	4,788
Development expenses	**-**	-	**9,150**	8,801	**9,150**	8,801
Transportation expenses	**7,957**	206	**-**	-	**7,957**	206
Impairment of exploration and evaluation assets	**27,590**	16,985	**-**	-	**27,590**	16,985
Share-based compensation	**456**	250	**1,042**	2,914	**1,498**	3,164
Loss (gain) on foreign exchange	**26**	-	**10**	4	**36**	4
Depletion and depreciation	**21,503**	700	**483**	-	**21,986**	700
Financial (income) and expenses	**16,424**	139	**-**	(187)	**16,424**	(48)
Share of net loss of associates	**12**	12	**-**	-	**12**	12
Gain on disposal	**(80)**	-	**-**	-	**(80)**	-
	157,376	22,075	**24,157**	15,591	**181,533**	37,666
Loss before income tax	**(47,426)**	(19,345)	**(24,157)**	(15,591)	**(71,583)**	(34,936)
Deferred tax recovery	**-**	(21)	**-**	-	**-**	(21)
Net loss	$ **(47,426)**	$ (19,324)	$ **(24,157)**	$ (15,591)	$ **(71,583)**	$ (34,915)

As at	December 31, 2019	December 31, 2018
Upstream assets	$ **590,213**	$ 357,287
LNG assets	**12,261**	13,386
Total consolidated assets	$ **602,474**	$ 370,673

(1) Comparative amounts have been reclassified to match the current period presentation.

Upstream assets include materials inventory acquired as part of the Acquisition on October 16, 2019 (see Note 5 of these consolidated financial statements). Materials inventory is comprised of consumables, materials and supplies and is carried at the lower of cost and net realizable value. As at December 31, 2019, the Company held $23.5 million of materials inventory (December 31, 2018: 0). Since the Acquisition date, materials inventory of $0.3 million was utilized in operations and expensed (2018: 0).

7. Cash and Cash Equivalents

		Year Ended December 31, 2019		Year Ended December 31, 2018
Cash	**$**	**28,719**	$	18,738
Less: restricted cash [(1)]		**19,152**		8,626
Less: restricted cash equivalents [(1)]		**-**		1,000
Total cash and cash equivalents	**$**	**9,567**	**$**	**9,112**

1. As at December 31, 2019 $14.1 million is restricted pending potential regulatory letters of credit ("LC") and $5.0 million as security for outstanding LC's. Restricted cash of $5.7 million was repatriated in January 2019. A $0.63 million tranche of LC's matured on February 1, 2020. Another $1.0 million tranche matures in April of 2020.

8. Property, Plant and Equipment

Historical Cost		
At December 31, 2017	$	3,850
Additions		503
Business acquisition (Note 5)		297,998
At December 31, 2018	$	302,351
Additions		1,319
Change in decommissioning obligations		(68,784)
Business acquisition (Note 5)		281,689
At December 31, 2019	**$**	**516,575**

Accumulated Depletion & Depreciation		
At December 31, 2017	$	48
Depletion and depreciation		700
At December 31, 2018	$	748
Depletion and depreciation		20,779
At December 31, 2019	**$**	**21,527**

Net Book Value		
At December 31, 2018	$	301,603
At December 31, 2019	**$**	**495,048**

Depletion:

At December 31, 2019 future development costs of Pieridae's proved plus probable reserves of $125.6 million were included in the depletion calculations.

Impairment assessment:

At December 31, 2019 and at December 31, 2018 the Company determined that no impairment indicators existed in any of the Company's CGUs, therefore no impairment tests were performed.

9. Exploration and Evaluation Assets

At December 31, 2017		42,827
Additions		1,731
Impairment		(16,985)
At December 31, 2018		27,573
Additions		1,077
Change in decommissioning obligations		17
Impairment		(27,590)
At December 31, 2019	**$**	**1,077**

E&E assets consist of the Company's undeveloped land, seismic and exploration projects, which are pending the determination of technical feasibility and commercial viability.

Impairment assessment:

On September 20, 2018, the Government of Quebec adopted new legislative and regulatory provisions pertaining to the exploration and exploitation of hydrocarbons in Quebec, under the Petroleum Resources Act. The Act replaces the Mining Act previously in force. The regulatory changes had a number of impacts to Pieridae, most significantly in prohibiting any further hydrocarbon exploration or exploitation activities within 1,000 meters of an urban area. Management reviewed all of its permits in the province to determine the impact of the new regulations on its oil and gas properties and concluded that indicators of impairment arose as a result of this new legislation. As at September 30, 2018 the Company recorded an impairment provision of $17.0 million against E&E assets in Quebec.

In Q1 2019 management re-evaluated the Company's prospects in Quebec and compared these to other opportunities available to the Company. Management concluded that renewing certain petroleum licenses in Quebec was not in the best interests of the Company. Consequently, only licenses for properties which held the most promise and likelihood of exploratory success were renewed, the remainder were relinquished. This was deemed as an indicator of impairment for the related properties, and as at March 31, 2019 an impairment provision of $7.9 million was recorded.

As at December 31, 2019 management again re-evaluated the value of these assets to Pieridae's long term vision. Due to ongoing regulatory challenges in Quebec and continued opportunities for further expansion of Pieridae's footprint in the Western Canadian foothills, Pieridae does not currently intend to make further investments in the Quebec properties, which represents an indicator of impairment. Consequently, as at December 31, 2019 the Company recorded an impairment provision of $19.8 million against the remaining carrying value of the Quebec E&E assets. The remining E&E balance reflects Pieridae's ongoing investments in Western Canada.

10. Right-Of-Use Assets

The following table details the cost and accumulated depreciation of Pieridae's ROU assets as at December 31, 2019:

Historical Cost		**Office**		**Vehicles**		**Equipment**		**Total**
Balance, January 1, 2019	$	418	$	466	$	26	$	910
Additions		1,776		4,048		-		5,824
Disposals		-		(153)		-		(153)
At December 31, 2019	**$**	**2,194**	**$**	**4,361**	**$**	**26**	**$**	**6,581**

Accumulated depreciation		Office		Vehicles		Equipment		Total
Balance, January 1, 2019	$	-	$	-	$	-	$	-
Depreciation		410		788		9		1,207
Disposals		-		(66)		-		(66)
At December 31, 2019	**$**	**410**	**$**	**722**	**$**	**9**	**$**	**1,141**

Net Book Value		Office		Vehicles		Equipment		Total
Balance, January 1, 2019	$	418	$	466	$	26	$	910
At December 31, 2019	**$**	**1,784**	**$**	**3,639**	**$**	**17**	**$**	**5,440**

The following table reconciles the Company's commitments at December 31, 2018 to the Company's lease liabilities as at January 1, 2019:

		Total
Leases	$	1,711
Quebec license fees		723
Interest on debt		3,562
Firm transportation		17,636
Total December 31, 2018	$	23,632
Commitments that do not contain a lease		(21,921)
Operating leases under IAS 17		(704)
Discounting impact		(97)
Lease liabilities as at January 1, 2019	**$**	**910**

11. Lease Liabilities

		December 31, 2019
Less than 1 year	$	2,854
1 - 3 years		2,908
4 - 5 years		138
After 5 years		29
Total lease payments		5,929
Amount representing finance expense over the term of the lease		(360)
Present value of net lease payments		5,569
Less current portion of lease liabilities		(2,701)
Non-current portion of lease liabilities	**$**	**2,868**

For the year ended December 31, 2019 the Company recorded interest of $0.1 million, and payments of $1.3 million related to its lease obligations. The undiscounted amount of estimated future cashflows required to settle these leases is $5.9 million.

12. Term Debt

	Year Ended December 31, 2019	Year Ended December 31, 2018
Current portion of term debt	**$ -**	$ 50,007
Non-current portion of term debt		
Term loan facility	**206,000**	-
Accretion of deferred fee [(1)]	**2,601**	-
Unamortized transaction costs	**(5,688)**	-
Term debt	**$ 202,913**	**$ -**

(1) Total accretion of the deferred fee and transaction costs is $2,912 for the year ended December 31, 2019

On June 26, 2019, the Company announced that it had closed a non-brokered private placement of a secured convertible debenture of the Company for aggregate gross proceeds of $10.0 million. These funds were used to pay a $10.0 million deposit toward the acquisition of the Shell Assets (refer to Note 5 of these consolidated financial statements). The common shares of the Company issuable upon conversion of the convertible debenture were issued immediately after the Acquisition was completed. The conversion price of the common shares was $0.86 per common share. The convertible debenture bore interest at 9.5% per annum.

On October 16, 2019 the Company entered into a $206.0 million senior secured fully drawn non-revolving term loan facility (the "Credit Agreement"). The Credit Agreement bears interest at a fixed rate of 12.0% per annum from the date of issue, accrued daily and payable quarterly in cash. Additional interest of 3.0% per annum is payable quarterly in cash or, at the option of the Company and subject to the lender's approval, payable in kind by way of accruing to the principal outstanding. The Credit Agreement is repayable in full on October 16, 2023 however the Company may repay the principal in whole or in part any time prior to October 16, 2013 upon 90 days written notice to the agent, without penalty. The proceeds of the Credit Agreement were used to fund a portion of the purchase price for the Shell asset acquisition (refer to Note 5 of these consolidated financial statements), to repay the Company's existing $50.0 million term loan facility, for certain planned letters of credit and for fees and transaction costs associated with the Acquisition.

Under the terms of the Credit Agreement, Pieridae is subject to the following financial covenants and certain other obligations:

(i) a minimum working capital ratio of 1.0x tested monthly commencing January 31, 2020 as calculated using a prescriptive formula,

(ii) a minimum market capitalization threshold of $200 million commencing September 30, 2020 (extended on March 31, 2020 via waiver from the agent and lender to June 30, 2021)

(iii) mandatory repayments of 50% of the Company's excess cash on a quarterly basis commencing December 31, 2019 as calculated using a prescriptive formula

(iv) unless the Company exercises a purchase right, but not an obligation, to acquire certain petroleum and natural gas properties from the lender for a purchase price of $45.0 million in cash on or before October 16, 2021, the Company will pay a deferred fee in the amount of $50.0 million to the agent. Pieridae is currently providing for the eventual payment of the deferred fee. In subsequent reporting periods, if Pieridae instead determines to exercise the purchase right, an adjustment to the financial liability would be required and would be recognized immediately in profit or loss.

As at December 31, 2019 the Company was in compliance with all financial covenants, and no prepayment was required.

	Year Ended December 31, 2019
Excess cash	$ (74,100)
Working capital ratio (> 1.0) [(1)]	1.25
Market capitalization (> $200.0 million)	n/a

(1) The working capital ratio covenant in the Credit Agreement is effective January 31, 2020. The Company is presenting the working capital ratio as at December 31, 2019 for information purposes only.

The company incurred $6.0 million of closing costs on closing of the Credit Facility, which were accounted for as transaction costs and netted against the value of the loan to be amortized over 48 months. The Company is accreting the $50.0 million value of the deferred fee over 48 months and recognizing these amounts as a finance expense.

The Company used the proceeds from the Credit Facility to fund acquisition of the Shell assets (refer to Note 5 of these consolidated financial statements), as well as the repayment of the $50.0 million term debt facility established when it acquired Ikkuma. The $50.0 million term loan was used to repay some of Ikkuma's outstanding term debt upon the close of the acquisition.

The effective interest rate on the Company's term debt for the year ended December 31, 2019 was 22.73% (December 31, 2018 – 9.50%).

13. Decommissioning Obligations

		Year Ended December 31, 2019		Year Ended December 31, 2018
Decommissioning obligations, beginning of year	$	158,236	$	2,740
Obligations acquired (Note 5)		115,567		154,972
Change in estimated future cash outflows		(68,784)		1,731
Obligations settled		(1,458)		(1,260)
Accretion		2,959		53
Decommissioning obligations, end of year	**$**	**206,520**	**$**	**158,236**

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $239.7 million (2018: $223.0 million).

At December 31, 2018, the Company used a range of risk-free nominal rates from 1.88% to 2.18%, including an inflation rate of 2% per annum, to estimate the present value of decommissioning obligations. In the fourth quarter of 2019, due to volatility in financial markets, long-term risk-free nominal rates in Canada declined below targeted inflation rates, implying a negative real rate of return. The Company determined that continued use of such rates would not provide an accurate measurement of decommissioning obligations, given observable and market-based risk-free real rates of return continue to be positive. To provide an accurate measurement of the decommissioning obligation, the Company applied an observable, market-based and inflation adjusted risk-free real rate of return of 0.41% to estimate the present value of the decommissioning obligation. The use of the risk-free real rate of return resulted in a change in estimate, with changes being added to, or deducted from, the cost of the related asset in property, plant and equipment and exploration and evaluation assets.

14. Share Capital

Authorized

The Company has an unlimited number of common shares with the holders of common shares entitled to one vote per share and an unlimited number of preferred shares issuable in series, with rights and privileges to be designated by the Board of Directors at the time of issuance. As at December 31, 2019 and December 31, 2018 there were no preferred shares outstanding.

Issued and outstanding common shares

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Common Shares	**Amount**	Common Shares	Amount
Balance beginning of the year	**74,516,594**	**$ 193,270**	50,481,197	$ 128,804
Shares issued on stock option exercise (1)	**44,115**	**-**	52,446	143
Shares issued in private placement	**12,108,139**	**21,382**	2,358,824	8,020
Shares on business combination (Note 5)	**70,745,871**	**63,169**	21,582,401	56,114
Share-based compensation (2)	**146,455**	**149**	41,726	189
Share issue costs (net of tax)	**-**	**(3,171)**	-	-
Balance end of the year	**157,561,174**	**$ 274,799**	**74,516,594**	**$ 193,270**

(1) During the year 44,115 options valued at 0.45 cents per share were exercised. Proceeds were negligible.
(2) Represents shares issued to Directors under the Directors' Compensation Policy.

Per Share Amounts

The calculation of basic earnings per share for the year ended December 31, 2019 was based on a net loss of $71.6 million (year ended December 31, 2018 net loss of $34.9 million).

	December 31, 2019	December 31, 2018
Basic common shares outstanding	**157,561,174**	74,516,594
Options outstanding	**6,392,072**	2,653,394
Warrants outstanding (1)	**1,889,755**	1,889,755
Fully diluted common shares outstanding	**165,843,001**	79,059,743
Weighted average shares outstanding	**98,622,426**	51,274,159
Dilutive effect of options and warrants (2)	**-**	-
Diluted weighted average shares outstanding	**98,622,426**	51,274,159
Net income (loss) per share – basic and diluted	**$ (0.73)**	**$ (0.68)**

(1) There are 1,179,410 one half of one common share purchase warrants outstanding, with each whole warrant entitling the holder to purchase one common share. There are an additional 1,300,050 share purchase warrrantss outstanding that entitle the holder to one common share.
(2) For the year ended December 31, 2019, a total of 6,392,072 options and (year ended December 31, 2018: 2,653,394) and 1,889,755 warrants (2018: 1,889,755) were excluded from the calculation as they were anti-dlituve.

15. Petroleum and Natural Gas Sales

The Company's major revenue sources are comprised of sales from the production of natural gas, condensate, natural gas liquids and sulphur. The sale of these products is recognized when control of the product transfers to the customer and the cash collection is reasonably probable, upon delivery of the product. The sale of produced commodities occurs under contracts of varying terms of up to one year. Revenues are typically collected on the 25th day of the month following sale. Product sales are based on fixed or variable price contracts. Transaction prices for variable priced contracts are based on benchmark commodity prices and other variable factors, including quality differentials and location.

The Company's petroleum and natural gas revenues are set out below. The 2018 values represent the Company's share of revenues for the 11 days following its acquisition of Ikkuma Resources Corp. on December 18, 2018, refer to Note 5 of these consolidated financial statements.

	Year ended December 31,	
	2019	**2018**
Natural gas	**$ 77,425**	$ 1,782
NGL's	**23,174**	298
Sulphur	**4,311**	333
Total petroleum and natural gas revenues	**$ 104,910**	**$ 2,413**

The Company also generate gas processing revenue of $6.8 million (December 31, 2018 $0) for fees charged to third parties for processing through facilities in which Pieridae has an ownership interest. This revenue is classified as third-party processing on the consolidated statement of loss and comprehensive loss.

16. Share Based Payments

Pursuant to Stock Option Plan Number Two, the Board of Directors may grant options to directors, officers, employees and other service providers. The aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 8,412,199 as at the time of granting. Stock options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company. All share-based compensation will be settled in equity.

	Year Ended December 31, 2019	
	Weighted Average Exercise Price	**Options**
As at December 31, 2017	$ 4.92	1,835,385
Granted on business combination	5.67	1,142,400
Exercised	2.82	(52,446)
Forfeited	6.76	(271,945)
As at December 31, 2018	$ 4.85	2,653,394
Granted	0.90	4,264,341
Exercised	0.00	(44,115)
Forfeited	1.93	(481,548)
As at December 31, 2019	**$ 2.47**	**6,392,072**

The following table summarizes stock options outstanding and exercisable at December 31, 2019:

	Stock Options Outstanding			Stock Options Exercisable		
Exercise Price	**Number of Outstanding Stock Options**	**Weighted Average Exercise Price**	**Weighted Average Remaining Life (years)**	**Number of Exercisable Stock Options**	**Weighted Average Exercise Price**	**Weighted Average Remaining Life (years)**
0.89 - 2.52	4,001,175	$ 0.93	4.54	1,726,561	$ 0.97	4.57
4.08 - 5.67	2,378,397	$ 5.04	2.21	1,861,677	$ 4.87	1.96
6.60 - 6.84	12,500	$ 6.72	0.32	12,500	$ 6.72	0.32
	6,392,072	**$ 2.47**	**3.66**	**3,600,738**	**$ 3.01**	**3.21**

The following table discusses the assumptions used in the Black-Scholes option-pricing model to calculate the value of the stock options granted during 2019 and 2018:

	Risk free interest rate (%)	Option life (years)	Volatility (%)	Weighted average fair value of each stock option granted
Grant				
January 29, 2018	1.98	3.75	69.0	$ 2.69
July 31, 2019	1.44	4.60	66.0	$ 0.48
October 21, 2019	**1.58**	**3.30**	**67.0**	**$ 0.44**

The following summarizes the Company's share-based compensation:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Share-based compensation	**$ 1,498**	$ 3,393
Capitalized costs	-	(229)
Total share-based compensation expense	**$ 1,498**	**$ 3,164**

17. Finance Income and Expenses

	Year Ended December 31, 2019	Year Ended December 31, 2018
Finance (Income) Expense		
Interest expense	**$ 15,123**	$ 304
Interest income	**(1,753)**	(405)
Accretion of decommissioning obligations (Note 13)	**2,959**	53
Interest on lease liabilities	**95**	-
Total financial (income) expense	**$ 16,424**	**$ (48)**

18. Deferred Tax

The income tax expense in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rates to the Company's loss before taxes. This difference results from the following items:

	December 31, 2019	December 31, 2018
Loss before taxes	**$ (71,583)**	$ (34,936)
Combined federal and provincial income tax rate	**26.56%**	26.94%
Computed income tax benefit	**(19,011)**	(9,412)
Tax effects of		
Non-deductible share-based compensation	**398**	721
Opening balance adjustments	**588**	-
Change in unrecognized deferred tax assets	**7,278**	6,382
Change in tax rates	**10,747**	2,288
Deferred tax expense (recovery)	**$ -**	**$ (21)**

The Company has roughly $234 million in non-capital losses that will expire between 2026 and 2039. The components of the Company's unrecognized deferred tax assets and liabilities are as follows:

	December 31, 2019	December 31, 2018
Non-capital losses	**$ 54,329**	$ 58,325
Capital losses	**206**	256
Issuance costs	**2,431**	974
Exploration and evaluation assets	**6,445**	906
Fair value of risk management contracts	**10**	-
Term debt	**(716)**	-
Property, plant and equipment	**(42,585)**	(41,590)
Asset retirement obligation	**47,871**	41,842
Unrecognized deferred tax assets	**$ 67,991**	**$ 60,713**

19. Financial Instruments and Risk Management

The Company's financial assets and liabilities are comprised of cash, accounts receivable, accounts payable and accrued liabilities, lease liabilities and term debt. The carrying value and fair value of the Company's financial instruments carried on the consolidated statements of financial position are classified into the following categories:

	December 31, 2019		December 31, 2018	
Financial Assets at Amortized Cost	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Accounts receivable	**40,810**	**40,810**	16,187	16,187
Financial liabilities at FVTPL				
Fair value of risk management contracts	**45**	**45**	-	-
Financial Liabilities at Amortized Cost				
Accounts payable and accrued liabilities	**73,573**	**73,573**	60,922	60,922
Lease liabilities	**5,569**	**5,569**	-	-
Term debt	**202,913**	**206,000**	50,007	50,007
Total	**285,020**	**288,107**	**110,929**	**110,929**

Pieridae has exposure to counterparty credit risk, liquidity risk and market risk. Pieridae recognizes that effective management of these risks is a critical success factor in managing organization and shareholder value. Risk management strategies, policies and limits ensure risks and exposures are aligned to Pieridae's business strategy and risk tolerance. Pieridae's Board of Directors is responsible for providing risk management oversight and oversees how management assesses and monitors risk. The following analysis provides an assessment of those risks as at December 31, 2019.

Counterparty credit risk

Credit risk 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 receivable from partners in jointly owned assets, natural gas marketers and counterparties to derivative financial contracts.

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms. Sales from petroleum and natural gas marketers are normally collected on the 25th day of the month following sale. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with creditworthy purchasers. The Company historically has not experienced any material collection issues with its petroleum and natural gas marketers. Receivables from partners in jointly owned assets are typically collected within one to three months of the bill being issued to the partner. The Company attempts to mitigate the risk from receivables from partners in jointly owned assets by obtaining partner approval of significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. The Company does not typically obtain collateral from petroleum and natural gas marketers or partners in jointly owned assets; however, the Company can cash call for major projects and does have the ability, in most cases, to withhold production from these partners in the event of non-payment.

The carrying amount of accounts receivable represents the maximum credit exposure. As at December 31, 2019 and 2018, the Company's accounts receivables consisted of:

		December 31, 2019		December 31, 2018
Petroleum and natural gas marketers	**$**	**2,572**	$	9,832
Receivables from partners in jointly owned assets		**36,270**		4,069
Other (primarily governmental entities)		**1,968**		2,286
Total accounts receivable	**$**	**40,810**	**$**	**16,187**

As at December 31, 2019 and 2018, the Company's accounts receivables are aged as follows:

		December 31, 2019		December 31, 2018
Current (less than 90 days)	**$**	**35,564**	$	14,954
Past due (more than 90 days)		**5,246**		1,233
Total accounts receivable	**$**	**40,810**	**$**	**16,187**

The Company has assessed the past due receivables and determined that no provision is required as at December 31, 2019 or December 31, 2018.

Liquidity and funding risk

Liquidity and funding risk is the risk that the Company may be unable to obtain sufficient cash or its equivalent in a timely and cost-effective manner in order to meet its commitments as they become due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements as they become due. The Company manages its liquidity risk by forecasting cash flows over a 12-month rolling time period to identify capital requirements. These requirements are then addressed through management of Pieridae's capital structure, being its share capital and debt facilities, and makes adjustments to it based on the funds available to the Company in order to support future business opportunities.

The timing of cash outflows relating to financial liabilities as at December 31, 2019 is outlined in the table below:

		Less than 1 year		1-3 years		3-5 years		Beyond 5 years		Total
Accounts payable	$	73,573	$	-	$	-	$	-	$	73,573
Other amounts payable		1,175		8,364		-		-		9,539
Deferred fee		-		50,000		-		-		50,000
Term debt		-		-		206,000		-		206,000
Lease liabilities		2,701		2,713		127		28		5,569
Total	**$**	**77,449**	**$**	**61,077**	**$**	**206,127**	**$**	**28**	**$**	**344,681**

Capital management

The Company manages the capital structure and makes adjustments in light of changes in economic and market conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, obtain additional debt facilities and/or consider strategic alliances including joint venture partners. Pieridae manages its capital structure and financing requirements using non-GAAP measures, including net operating income, and the ratio of debt to adjusted flow of funds from operations. The metrics are used to measure Pieridae's financial leverage. To date, the Company has funded its share of commitments from existing cash balances, equity raises and various debt facilities.

The level of the Company's indebtedness that may occur from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. Financing by way of a partnership or sale of an interest may reduce the interest held by the Company in the properties in respect of which the financing is obtained. There can be no assurance that such financing will be available to the Company. Furthermore, even if such financing is successfully secured, there can be no assurance it will be obtained on terms favourable to the Company or provide the Company with sufficient funds to meet its objectives. This may adversely affect the Company's business and financial position. If financing is obtained by issuing additional equity, control of the Company could be affected.

The Company may require additional financing to support operations, to advance expansion of its upstream operations and will require significant additional financing to ultimately fund the construction of its proposed Goldboro LNG facility. Management will explore all options to achieve the appropriate funding levels. A source of future funds available to the Company is the issuance of additional shares. The Company's operations may also be financed in whole or in part with debt, a partnership agreement or a sale of an interest in an oil or natural gas property. Debt financing may increase the Company's debt levels above industry standards. Depending on future development and exploration plans, the Company may require additional equity and/or debt financing that may not be available, or available on favourable terms.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market conditions. Market risk comprises three types of risk: interest rate risk, currency risk and price risk.

(a) Price risk

The Company petroleum and natural gas production is directly subject to fluctuations in commodity prices. Fluctuations in commodity prices, both absolute and associated with changes in the Canadian to U.S. dollar exchange rate, and specifically the prices for natural gas, condensate and NGL's, could have significant impact on the Company's cash flows and its ability to sustain its operations. Excess supply, coupled with ongoing pipeline capacity constraints, continue to weigh on petroleum and natural gas prices in Western Canada. This depressed pricing environment, could also have a significant impact on the Company's ability to attract the necessary investment to ultimately fund construction of its Goldboro LNG project. As the Company advances toward a final investment decision for the LNG project, it will evaluate a number of options to potentially manage this risk.

Pieridae utilizes fixed price delivery contracts and derivative financial instruments as part of its overall risk management strategy to assist in managing the exposure to commodity risk, and the cost of power. Pieridae does not trade financial instruments for speculative purposes.

(b) Interest rate risk

The Company is potentially exposed to fair value risk through increases in interest rates. While the Company's interest rate exposure under its Credit Agreement is fixed, any new or additional debt could be subject to higher rates. Recently central banks have been cutting rates, resulting in historically low risk-free interest rates, however any future rate increases could have an impact on the economics of future debt financings associated with Pieridae's capital management plan.

(c) Currency risk

Certain of the Company's cashflows, primarily in relation to development expenses incurred on the Goldboro LNG project, are subject to currency risk. Associated accounts payable, accrued liabilities and commitments are denominated in US dollars, UK pound sterling and Euro. If the Canadian dollar was to change by 5% against these currencies, the impact to the foreign exchange gain or loss would have been approximately $0.4 million for the year ended December 31, 2019 ($0.39 million for the year ended December 31, 2018). To date, the Company has not entered into any foreign currency transactions or financial instruments to manage currency risks.

Business risks and uncertainties

The Company is subject to a number of business risks. These outlined in greater detail in our Management Discussion & Analysis and Annual Information Form for the years ended December 31, 2019 and 2018.

20. Presentation in Consolidated Statements of Cash Flows

The below table provides supplemental information for the statement of cash flows:

	December 31, 2019	December 31, 2018
Changes in non-cash working capital		
Accounts receivable	**$ (24,623)**	$ 287
Prepaid expenses and deposits	**(1,285)**	(55)
Inventories	**(23,535)**	-
Accounts payable and accrued liabilities	**13,360**	5,497
	$ (36,083)	$ 5,729
Changes relating to:		
Operating activities	**$ (36,083)**	$ 5,729
	$ (36,083)	**$ 5,729**

21. Related Party Transactions

The Company's related parties include key management personnel, as described below. None of the transactions with related parties involve special terms or conditions, and no guarantees were given or received. Outstanding balances are usually settled in cash or shares. Key management personnel compensation includes the following:

	December 31, 2019	December 31, 2018
Short-term employee benefits:		
Salaries and employee benefits	**$ 2,107**	$ 1,309
Director's fees	**286**	239
Total short-term employee benefits	**2,393**	1,548
Share-based compensation	**1,005**	1,869
Fees	**-**	52
Total compensation	**$ 3,398**	**$ 3,469**

22. Commitments

	2020	2021	2022	2023	Thereafter	Total
License fees	46	46	46	46	46	230
Interest on debt	30,900	30,900	30,900	24,466	-	117,166
Deferred fee	-	50,000	-	-	-	50,000
Firm transportation	8,762	8,113	3,427	1,506	1,968	23,776
Total	**$ 39,708**	**$ 89,059**	**$ 34,373**	**$ 26,018**	**$ 2,014**	**$ 191,172**

23. Interests in Associates

On March 4, 2013, the Company established Pieridae Production LP and Pieridae Production GP. Pieridae Production LP was formed to develop gas resources in New Brunswick, Nova Scotia and the Northeast US. As at December 31, 2019, the Company's ownership interest is 20%. Under the terms of the Partnership agreement, the Company is entitled to contribute an additional $14.1 million to the partnership, prior to any further funding being made by the other partner and increasing its ownership in Pieridae Production LP to 50%.

The Company's interest in Pieridae Production LP and Pieridae Production GP are accounted for using the equity method in the consolidated financial statements.

Interest in associates		
Value at December 31, 2017	$	3,734
Share in net loss of associates		(12)
Value at December 31, 2018	$	3,722
Share in net loss of associates		(12)
Value at December 31, 2019	**$**	**3,710**

As at December 31, 2019, the associates have no contingent liabilities or capital commitments. However, under the terms of the partnership operating agreement there is an annual fee of $60.0 thousand to be paid by Pieridae Production LP to the operator.

Summarized financial statement information of the Partnership is disclosed below:

		Year Ended December 31, 2019		**Year Ended December 31, 2018**
Current assets	**$**	**140**	$	137
Non-current assets		**20,145**		20,145
Current liabilities	**$**	**(2,073)**	$	(2,010)

		Year Ended December 31, 2019		**Year Ended December 31, 2018**
Net loss for the period	**$**	**(60)**	$	(60)
Share of net loss for the period	**$**	**(12)**	$	(12)

24. Subsequent Event

After the balance sheet date, there has been a significant increase in macro-economic uncertainty with regards to prices and demand for hydrocarbons and associated products as a result of the COVID-19 (coronavirus) outbreak. Furthermore, recent global developments and uncertainty in oil supply have caused further abnormally large volatility in commodity markets. The scale and duration of these developments remain uncertain but could impact our earnings, cash flow and financial condition.

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