PIERIDAE ENERGY

2018 Annual Report

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The Pieridae Story

Pieridae Energy Limited's ("Pieridae", "we", "our" or the "Company") mission is to build shareholder value by becoming the first fully integrated, independent liquified natural gas ("LNG") producer in Canada. Pieridae's business activities are centred on the following areas of the energy sector: (a) the ownership and production of Canadian and U.S. natural gas assets and the associated products; (b) the liquefaction of natural gas at the LNG production facility being developed by Pieridae in Goldboro, Nova Scotia; and (c) the sale of the LNG to international markets and specific niche markets in North America. Shareholder value is created by taking North American gas, which is over supplied and has limited demand growth, to international markets which are undersupplied and have strong demand growth.

Pieridae's business is based upon the traditional integrated model of the LNG industry, characterized by the ownership of both natural gas resources and liquefaction processing capacity. Pieridae is developing its liquefaction production facility on the Atlantic coast, near the community of Goldboro, Nova Scotia. The integrated business model allows for the management and mitigation of all risks along the value chain. Pieridae has deliberately targeted LNG sales to markets with visible and liquid price indexes associated with futures markets. This business strategy allows Pieridae to use a variety of physical and financial tools to manage commodity price risk and optimize its numerous revenue streams.

Pieridae's Goldboro LNG project ("Goldboro") is a USD $10 billion project that includes a USD $8 billion 2-Train natural gas liquefaction facility in Nova Scotia, along with up to USD $2 billion to be invested in developing natural gas assets. We expect to begin initial construction activities in 2019 and currently expect first LNG sales in late 2023 or early 2024.

Cleared Goldboro LNG site in Nova Scotia

Pieridae has a strategy focusing on capital efficiency and reusing, repurposing and revitalizing existing assets and infrastructure reducing overall capital costs and its environmental footprint. The recent acquisition of Ikkuma Resources Corp. ("Ikkuma") follows this strategy, revitalizing the underexploited Foothills conventional natural gas reservoirs with upside potential and the ability to consolidate production assets in the Alberta foothills. The plan will repurpose and reuse under-filled Alberta midstream assets to provide feed gas. We also expect to repurpose existing pipelines and pipeline capacity, to transport gas to Goldboro. Future plans also see natural gas for Goldboro sourced from dormant Atlantic Canada gas fields which could not compete with the shale industry in North America.

At Goldboro, the gas will be liquefied using modern, low emission technology. We are exploring numerous options for the reuse of the waste heat which is a natural by-product of the liquefaction process. Once liquified, the gas will be shipped to Germany and other European markets to diversify the supply of gas and help that region reduce coal-based power generation, thus reducing global Greenhouse Gas ("GHG") emissions.

Our Supply Portfolio

Supporting our signature Goldboro project, Pieridae currently owns and operates natural gas assets across Canada.

In Western Canada, our area of operations extends from Fort Nelson in northeastern British Columbia, to southwestern Alberta (Pincher Creek), primarily in the Alberta and BC Foothills. Close to 400 wells are currently producing natural gas, with an average daily output of 100-115 million cubic feet ("MMcf"). These assets were acquired in the December 2018 acquisition of Ikkuma and form the base for Train 1 gas supply (the first LNG facility at Goldboro). Pieridae expects to grow the current volume to approximately 500 MMcf through the drill bit and eventually to 800 MMcf through consolidation.

In Québec, we are on of the largest holders of oil and gas exploration permits. Pieridae has eight properties in various stages of development, with land holdings of nearly 2.2 million acres. Third party assessment indicates the Bourque exploration play could have 830 million barrels of oil in place, with 30 per cent likely recoverable. These assets were acquired in the October 2017 acquisition of Pétrolia Inc. ("Pétrolia").

In New Brunswick, Pieridae has a 20% interest in 14,371 hectares of undeveloped property in the Frederick Brook and Hiram Brook basins. Early in 2019, a change of government in New Brunswick resulted in the fracking moratorium that was put in place by the prior Government being eased. With its planned development, a large portion of the supply for Train 2 (the second LNG facility at Goldboro) could come from the province of New Brunswick, providing employment and royalties to the province.

2018 Performance Highlights

($000s, except as noted)		2018		2017
Financial				
Revenue	$	2,730	$	90
Net loss	$	34,915	$	8,924
Net loss per common share – basic and diluted ($/share)	$	0.68	$	0.24
Cash flow from operating activities	$	(8,407)	$	(10,239)
Capital expenditures	$	2,234	$	22
Project expenditures (1)	$	9,286	$	6,640
Net Working Capital (1)	$	(84,061)	$	10,989
Shareholders' equity	$	91,900	$	59,469
Operating				
Daily production (2)				
Crude Oil and NGLs (bbl/d)		350		-
Natural gas (Mcf/d)		102,952		-
Barrels of oil equivalent (BOE/d) (3)		17,509		-
Gross proved plus probable reserves (4)				
NGLs (Mbbl)		1,357		-
Natural gas (MMcf)		670,497		-
Barrels of oil equivalent (MBOE) (3)		113,106		-

(1) Non-IFRS measure. See page 46 in the Management's Discussion and Analysis ("MD&A").

(2) Average daily production is from the commencement of active operations with the acquisition of Ikkuma Resources Corp on December 20, 2018.

(3) A barrel of oil equivalent ("BOE") is derived by converting six thousand cubic feet of natural gas to one barrel of crude oil (6 Mcf:1 bbl). This conversion maybe 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.

(4) Year-end proved plus probable reserves were prepared using forecast prices and costs.

Letter to Shareholders

The Pieridae Advantage

2018 marked a year of progress, accomplishments and major steps forward for Pieridae as we continue to take a thoughtful, prudent and fiscally sound approach toward our overall vision of being Canada's leading integrated LNG company. The cornerstone of achieving this goal is our signature project: building and managing the multi-billion-dollar Goldboro LNG export facility and supplying it with natural gas from our Alberta assets and other sources. Goldboro would be the largest megaproject in Nova Scotia's history, creating approximately 3,500 construction jobs – employing about 30 per cent of the province's entire unionized workforce during the construction period. We are the first and only publicly-traded, independent company like this in Canada.

Our business strategy is simple: reuse, repurpose and revitalize existing assets. If we follow this mantra, it reduces the cost of the Goldboro project. When you look at us from an overall business model, we see ourselves as a field to the flange business. In other words, we own the natural gas, turn it into a liquid and market it overseas.

The economic theory behind our model involves using the upstream – the gas reserves that we own - as the primary method of managing risk between the onshore and the offshore markets. That really is the fundamental economic principle an investor is evaluating. They see the value in owning the full economic chain from production through to liquefaction. This is what they are investing in.

The Goldboro project is advanced in several ways:

- All major regulatory, environmental, import/export and construction permits are in place
- Pieridae has signed a 20-year sales agreement (with an option for a 10-year extension) with German utility Uniper worth approximately CAD $90 billion at forecasted prices over 30 years, the largest single export contract in Canadian history
- The German Government is supportive of the project, declaring Pieridae eligible in principle for up to US$4.5 billion in loan guarantees
- Pieridae's ownership of natural gas assets in the Alberta Foothills allows it to maximize financial success and potentially create over 1,000 drilling jobs and support many more over the life of the LNG sales contract
- Pieridae will directly move Alberta gas to overseas markets
- Agreements are in place to use existing pipelines to transport the natural gas from Western Canada to the Goldboro facility
- A benefits agreement has been signed with the Assembly of Nova Scotia Mi'kmaq Chiefs. The agreement means the Mi'kmaq will benefit economically from the development, construction and operation of the facility
- Project labour agreement are in place with the 15 trades that make up the Mainland Nova Scotia Trades
- Front-end engineering and design ("FEED") work is complete and approved by the Nova Scotia Utilities & Review Board
-

Goldboro is Eastern Canada's only fully permitted LNG facility with gas supply access, available pipeline capacities and an anchor customer. The project will create thousands of jobs across the country and establish a solid global market for Canadian natural gas for years to come.

2018 Accomplishments

Mid-year, we built on our successful Uniper deal by beginning negotiations on a sales and purchase agreement to supply another European utility with LNG from the second Goldboro processing 'Train 2'. This agreement would see a buyer purchase up to 1 million tonnes a year of LNG. LNG deliveries would begin upon completion of the second Train and last for 10 years. As with Germany, the rest of Europe is viewing LNG as a strategic resource that will provide a reliable, stable supply of natural gas.

In October of 2018, Pieridae became eligible for up to US$1.5 billion in additional loan guarantees from the German Government. These guarantees would support the financing to allow us to begin drilling reservoirs in Alberta and to develop enough natural gas to supply Train 1. This is in addition to US$3 billion announced previously backstopping the financing of the initial Goldboro LNG facility ('Train' 1). There was more good news on the Goldboro front in the fall when the Nova Scotia Utility and Review Board (NSURB) issued the permit to construct the LNG facility. We continue to work to satisfy each of the conditions within the permit. Getting the construction permit gave Pieridae the final, key permit needed to proceed to construction.

To be successful, Goldboro needs a stable supply of natural gas to liquefy and ship overseas. Pieridae took a major step in its supply acquisition plan with the purchase of Ikkuma late in 2018. Ikkuma owned an extensive area of producing wells and conventional gas reserves in the Alberta Foothills. Once the foothills gas pools are fully developed, and associated midstream more completely utilized, we expect these assets to provide a source of low-cost gas for the majority of Train 1 (the first facility) at Goldboro.

Mi'kmaq Chief Terrance Paul:

'This agreement with Pieridae is an example of how companies can respect our Mi'kmaw Rights and Title, and also provide an opportunity for Mi'kmaq participation in development on our lands'.

The benefits of Pieridae's Goldboro project are broad and diverse. Thousands of Canadians will support their families by working on the project and support activities. It is important to Pieridae that the First Nations peoples participate in this success. As such, it was very gratifying to sign a benefits agreement with the Nova Scotia Mi'kmaq in February 2019. The agreement means the Mi'kmaq will benefit economically as the Goldboro LNG facility is developed, built and begins operations. As Chief Terrance Paul said: 'This agreement with Pieridae is an example of how companies can respect our Mi'kmaw Rights and Title, and also provide an opportunity for Mi'kmaq participation in development on our lands'.

Finally, in April 2019, Pieridae achieved a major step forward in getting the Goldboro LNG facility built. We engaged respected global firm Kellogg, Brown & Root Limited ("KBR") to review our FEED work on Goldboro and begin conducting an open-book estimate ("OBE") for the facility. The completion of the OBE will be the final piece of the lump sum, turn–key engineering, procurement and construction ("EPC") contract with KBR. The initial FEED was completed in 2016 by CB&I (now McDermott). As part of the process of obtaining the permit construct, the Nova Scotia Utilities & Review Board engaged Lloyd's Register of London, UK to review Goldboro's design and confirm it complied with all applicable standards and codes. Now, KBR will do its own review. We are confident KBR will find the FEED to be thorough and complete, allowing them to proceed to the next phase.

Despite our teams' best efforts, there were some disappointments. Our share price has been under pressure as performance in the energy sector overall experienced difficulties, with Q4 of 2018 being one of the worst in history for energy stocks. We recognize with projects the size of Goldboro, there are a number of stakeholders who do not have the same timelines as Pieridae. If we continue to demonstrate progress and that the project is going to successfully come to fruition, we're confident we will continue to lessen the gap in value of where our shares currently trade versus the true value of our company. That said, we have maintained continuous support from key institutional investors such as the Alberta Investment Management Corporation (AIMco), which purchased an additional 5,000,000 common shares early in 2019.

Our Commitment

While our primary goal is the construction of Goldboro, we will not accomplish this without the highest consideration of the environment, safety of our workers, and the contribution and well-being of our First Nations and local communities. We must also operate with utmost integrity, maximize value for our investors, and follow-through on our promises. If we want to be the most trusted leader in the LNG industry, we must earn and keep that trust. It starts with the tone at the top. Right from the Board down through management and each team member in the organization. It means acting with integrity - with each decision we make, each action we take. The strength of our word and our commitment to seeing things through. Earning the trust of our shareholders, our partners, our stakeholders, and the communities and Indigenous peoples we work with. For a company with a bold, ambitious business plan as ours, we need to model these behaviours as a group. And we must model a culture of safety. More than that, it's a commitment to our people. You must ensure all employees come home safely, and they know you're committed to this as a company.

Pieridae has grown quickly the last few years. We now have assets in many parts of Canada: British Columbia, Alberta, Québec, New Brunswick and Nova Scotia. Our challenge and our commitment revolves around making sure we operate at the highest standards in all of these provinces and with highest environmental and safety standards.

Our track record to date has been positive. And the positive record extends to how we have conducted ourselves both in a socially and an environmentally responsible way. First and foremost, at Pieridae, it comes down to the relationships and alliances. We referenced earlier our successful benefits agreement signed with the Nova Scotia Mi'kmaq, and our commitment to maintain and strengthen this relationship. Our alliance with Nova Scotia unions is strong. We have a project labour agreement in place with the 15 trades that make up the Mainland Nova Scotia Trades, so our skilled labour force is committed. We negotiated with the trades over several months, not only getting an agreement but we also worked with the provincial government to change legislation allowing for specific project labour agreements. As mentioned earlier, Goldboro would provide these men and women approximately 3,500 construction jobs plus about 200 more when the plant is operating. When you look at where other major projects in Canada have failed, it has often been because of the failure to gain acceptance from key stakeholders involved in and affected by the way you're operating.

When it comes to the environment, our commitment is unwavering. We have our Environmental Assessment (EA) permit for the Goldboro facility and we are very proud of that. But we know our work is not done and we remain focused on following all terms and conditions of the EA. Not just because it is a requirement of our construction permit, but because we know it is the right thing to do. For the last several years, respect for the environment in and around the Goldboro site has been paramount. We have studied lobster, urchins, bats, fish and moose to see what impact our project might have on them. And if there is an impact, to do whatever we can to lower or remove it. We have sampled the soil, the streams, rivers and the nearby ocean so we know and understand the current environment and then leave it as we found it when the facility is built.

> *'When it comes to the environment, our commitment is unwavering.'*

The Future

As we look forward, Pieridae is on the cusp of reaching an investment decision for the Goldboro LNG project. We are working with a world-class partner in KBR and we are confident we will sign a contract with them to design and build Goldboro. In tandem, Pieridae continues discussions leading to the needed financing for Goldboro. While we can't be distracted by external factors that have impacted the project, we must acknowledge them. There is investor skepticism, public fatigue, and cynicism when it comes to funding and constructing any large, new energy infrastructure projects in Canada. We are a relatively small company playing a 'super majors' game, and despite the many financial and regulatory obstacles, this small company has successfully progressed a major infrastructure project such that the project continues to advance.

With the strong progress we have made the last couple of years, our employees deserve much of the credit. The Goldboro project would not be where it is, nor will it become a reality, without their continued efforts and dedication. For this and much more we thank them.

Special thanks as well to our Board colleagues who have all showed a strong commitment toward achieving our goals, while doing so in a financially prudent manner for our shareholders. In 2018, we welcomed two new members: Tim de Freitas and Kjell Pedersen. Both bring a wealth of energy experience. We are privileged to work alongside all of our Board colleagues and feel honoured to lead this company every day.

Here’s to a strong 2019 and a final push toward FID.

Alfred Sorensen Chief Executive Officer	Myron Tétreault Chairman of the Board

2018 Year-End Reserves

For the year ended December 31, 2018, the Company retained Independent Qualified Reserves Evaluators (IQREs), Sproule Associates Limited ("Sproule") and Deloitte, to evaluate and review all the Company's proved and proved plus probable reserves. The IQREs conducted the evaluation and review in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook. The reserves disclosure is presented in accordance with NI 51-101 requirements using forecast prices and escalated costs.

The Reserves and HSE Committee of the Company's Board of Directors has met with and carried out independent due diligence procedures with the IQREs as to the Company's reserves. All reserves values are Company Gross unless stated otherwise. Prior to acquiring Ikkuma, Pieridae had no proved or probable reserves so the numbers below represent only the proved and probable reserves acquired.

- Total proved reserves are 83,804 MBOE. Proved plus probable reserves are 113,106 MBOE. Proved developed producing reserves are 59,995 MBOE.
- The net present value of future net revenues, before income tax, discounted at 10%, is $302.4 million for proved reserves and $396.1 million for proved plus probable reserves. The net present value for proved developed producing reserves is $245.0 million.

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 three months and year ended December 31, 2018, as well as information about our future prospects. This MD&A has been prepared as of April 24, 2019 and should be read in conjunction with the Company’s audited consolidated financial statements and the accompanying notes for the years ended December 31, 2018 and 2017, and the Annual Information Form for the year ended December 31, 2018. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The reporting currency is the Canadian dollar. All amounts are presented in Canadian dollars 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.

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

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 “Corporation”) expected 2019 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 Corporation 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.

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 resources 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.

Special Note Regarding Non-IFRS Financial Measures

This MD&A includes references to financial measures such as project expenditures and net working capital, that the Company believes is important to the understanding of the business activities. These financial measures are not defined by International Financial Reporting Standards ("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.

Special Note Regarding Production and Reserves

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.

Definitions and Abbreviations

AECO	Alberta natural gas reference location	IFRS	International Financial Reporting Standards
AIF	Annual Information Form	Mbbl	Thousand barrels
ARO	Asset retirement obligation	Mbbl/d	Thousand barrels per day
Bbl	Barrels	MBOE	Thousand barrels of oil equivalent
Bbl/d	Barrels per day	MBOE/d	Thousand barrels of oil equivalent per day
Bcf	Billion cubic feet	Mcf	Thousand cubic feet
Bcf/d	Billion cubic feet per day	Mcf/d	Thousand cubic feet per day
Bcm	Billion cubic metres		
BOE	Barrels of oil equivalent	MMbbl	Million barrels
BOE/d	Barrels of oil equivalent per day	MMBOE	Million barrels of oil equivalent
CAD$	Canadian dollars	MMBtu	Million British thermal units
CAPEX	Capital expenditures	MMcf	Million cubic feet
E&P	Exploration and Production	MMcf/d	Million cubic feet per day
GHG	Greenhouse gas	NGLs	Natural gas liquids
GJ	Gigajoules	USD$	United States Dollars
GJ/d	Gigajoules per day		
IASB	International Accounting Standards Board		

Objectives and Strategy

The Company’s objective is to monetize Canadian natural gas into European markets through the development of an LNG terminal on the East coast of Canada. We strive to meet this objective by having growth and development plans for each aspect of our integrated strategy from upstream gas exploration to transportation from the field to the facility to the construction and operation of the LNG terminal. The Company takes a long-term approach to growth and investments in order to mirror the long-term nature of the infrastructure and focuses 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, the Company believes it will achieve its long-term objectives. 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 gas supply needs.

Operational Highlights

Appointment of Financial Advisors

In February 2018 Pieridae announced that it had engaged Morgan Stanley & Co, LLC and SG Americas Securities, LLC (“SG”) to serve as financial advisors for the financial requirements of Goldboro construction. Pieridae intends to raise USD $10 billion in equity and project financing to fulfill its mandate of becoming the first independently operated, fully-integrated LNG project in North America. Subsequent to year end, the Company terminated its relationship with Morgan Stanley & Co, LLC but continues to work with SG on the debt aspects of the project financing.

In August 2018 Pieridae announced the appointment of KfW IPEX-Bank as an additional adviser to assist it in finalizing a multibillion US dollar untied loan guarantee from the German federal government under its Bundesgarantien für ungebundene Finanzkredite ("UFK") program.

Agreement to Negotiate Offtake Agreement for Train 2 Produced LNG

Pieridae announced on May 7, 2018 that it entered into a term sheet to negotiate a binding LNG sale and purchase agreement to supply Canadian-sourced liquefied natural gas to Europe from Train 2 of Goldboro. Under the term sheet with Pieridae, the off taker, AXPO Trading A.G., will purchase up to one million tonnes per annum of LNG commencing from the start of commercial deliveries of LNG from Train 2. The duration of the contract is contemplated to be ten years.

Regulation changes in the province of Quebec

On September 20, 2018, the Quebec Government adopted the Petroleum Resources Act and its related regulations. The Act governs all aspects of the exploration and exploitation of hydrocarbons in Quebec and replaces the Mining Act previously in force. The regulatory changes have multiple impacts for the Pieridae, including but not limited to:

- A complete prohibition of exploration and production within 1,000 meters of urban areas;
- Restrictions on exploration and development in areas within 1,000 meters of a body of water; and
- A ban on hydraulic fracturing within 1,000 meters of the surface.

Following these changes in regulation, Pieridae reviewed all its permits in the province and determined that it was not possible to continue oil and gas operations on certain properties. Due to these changes, Pieridae took a $17.0 million impairment charge against its assets in the affected areas. As such, the corporation will seek compensation from the Government of Quebec. Other properties in Quebec will be assessed under the current regulatory regime, and further investment will be at the discretion of the Corporation.

Additional Conditional Loan Support from the German Government

On October 29, 2018 Pieridae received a written confirmation of eligibility, in principle, for up to an incremental USD $1.5 billion of untied loan guarantees by the German Federal Government under its UFK program. This confirmation marks an important milestone in advancing Goldboro. This prospective USD $1.5 billion German Government loan guarantee is in addition to a similar confirmation of UFK eligibility that was previously received, for up to USD $3.0 billion of prospective German Government loan guarantees to assist in financing construction of Train 1, and all associated infrastructure. The terms and conditions of both guarantees are yet to be negotiated in the context of an overall project financing. The guarantees will be subject to, among other things, a commitment that a specified amount of LNG produced annually from Goldboro will be delivered to Germany over a term of twenty years.

Permit to Construct Goldboro

The Nova Scotia Utility and Review Board ("NSURB") issued the permit to construct the Goldboro LNG Facility on November 5, 2018. Pieridae expects to satisfy each of the associated conditions of that permit, and to commence the construction of Goldboro in 2019 or in early 2020.

Engagement with First Nations

Pieridae continued to engage with the Mi'kmaq First Nation to ensure their Aboriginal and Treaty Rights are recognized, respected, and their members will realize on the opportunities contemplated by the Memorandum of Understanding signed in August 2013. Subsequent to the year end, Pieridae signed a formal benefits agreement with the Mi'kmaq First Nation.

Private Placement

On December 18, 2018 the Company announced that it had completed a non-brokered private placement for proceeds of $8.0 million. Pieridae used the proceeds of the private placement to refinance certain amounts due at closing of the Arrangement with Ikkuma, to pay for transaction expenses associated with the Arrangement and for general corporate purposes, including exploration expenses.

Pieridae issued 2,358,824 units pursuant to the private placement at a price of $3.40 per unit. Each unit consists of: (i) one common share of Pieridae; and (ii) one half common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of Pieridae at an exercise price of $5.67.

Business Combination with Ikkuma

On December 20, 2018, the Company and Ikkuma announced that they had completed the previously announced strategic combination of the two companies, by way of a plan of arrangement, whereby Pieridae acquired all of the issued and outstanding shares of Ikkuma (the "Arrangement"). 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.

The completion of the Arrangement provides Pieridae with ownership of an extensive area of producing and gas-prone reserves and resource properties situated primarily in the central Alberta Foothills and northeast British Columbia. It also represents a transformative step in the execution of Pieridae's integrated business model, as the Company shifts to becoming an upstream natural gas producer, in addition to an LNG development company. Pursuant to the Arrangement, Pieridae acquired the natural gas properties at metrics significantly below the cost of similar reserves and resources in other parts of North America. The Company also acquired deep expertise in the exploration and development of these assets, as it looks to expand its portfolio of natural gas assets in the Western Canadian Sedimentary Basin and exploit its properties in Quebec and New Brunswick. This is expected to provide Pieridae with a long term, competitive advantage for delivering LNG to European and other markets.

Subsequent Events

On February 4, 2019, the Company announced that the Nova Scotia Mi'kmaq Benefits Agreement, which it negotiated with the Assembly of Nova Scotia Mi'kmaq Chiefs, had been ratified. This Benefits Agreement establishes the framework under which the Mi'kmaq of Nova Scotia will benefit economically from the development, construction and operation of Goldboro.

On February 28, 2019, the Company announced that it had completed a brokered and non-brokered private placement of the Company's common shares at a price of $2.00 per share. After giving effect to both the brokered and non-brokered tranches of the private placement, the Company issued 9,550,000 commons shares for gross proceeds of $19.1 million.

On April 1, 2019, the Company announced that it had engaged KBR to perform a review of an amended version of the previously prepared FEED study for Goldboro. KBR will also conduct an OBE necessary for entering into a lumpsum EPC contract.

Goldboro LNG Project

The Goldboro LNG Facility will be located on the coast of Nova Scotia, approximately two kilometres from the communities of Goldboro, in the West, and Drum Head, in the East. Plans are for the facility to include two liquefaction trains, each with the annual production capacity of approximately 5 MMTPA of LNG. Plans also include a power plant, which will generate the electricity required to produce LNG; two LNG storage tanks; as well as marine structures and a jetty. The jetty will be equipped to accommodate two LNG carriers with capacities of up to 250,000 m3 of LNG each.

Project Background

INTEGRATED LNG BUSINESS MODEL

The acquisition of Ikkuma solidifies Pieridae's position as Canada's only 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. Plans are in place to add to these reserves in the future. 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 market 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 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 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 3,752 Bcm to 5,349 Bcm between 2017 and 2024. 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.

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. This strategy contemplates acquisitions and joint ventures to acquire more reserves in Canada and the United States. Pipeline egress constraints in Canada have put significant downward pressure on Canadian benchmark natural gas prices. This represents a significant opportunity for Pieridae to acquire incremental natural gas assets at historically low prices.

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 TransCanada Corporation's Canadian Mainline ("Mainline"). This represents an opportunity for TransCanada Corporation as well, as their Canadian Mainline is currently underutilized. Current capacity of the Mainline is about 6 Bcf/day, but it is running at 2.4 Bcf/day. There are some sections of the subsidiary lines which will require upgrading to meet Pieridae's capacity requirements. Engineering work is ongoing to refine the adjustments required.

PROJECT SITE

The proposed site for Goldboro is located in the Municipality of Guysboro, Nova Scotia. It consists of approximately 107.5 hectares (265.5 acres) of undeveloped land situated within the Goldboro Industrial Park. The site was chosen as the location for Goldboro for several reasons. Firstly, the Goldboro Industrial Park is the Canadian ending point of the M&NP. It is also landfall for the Sable Natural Gas Pipeline which could eventually provide more feedstock. The site also has sheltered access to the deep water of Isaacs Harbour. The Company has completed some land deforestation and grubbing at the site.

Pieridae has the right, exercisable on sixty (60) days prior notice at any time before March 31, 2020, to require the Municipality to repurchase the site for $3.2 million on the terms and conditions of a put option registered against title to the site. In addition, the Municipality has the right, exercisable on sixty (60) days prior notice, to repurchase the site for $3.2 million on the terms and conditions of a call option registered against title to the site if Pieridae either: (a) fails to make a final investment decision to proceed with the construction of the Goldboro LNG Facility on or before December 31, 2019; or (b) fails to obtain all regulatory permits that are necessary to construct the Goldboro LNG Facility on or before December 31, 2019.

Construction options

Pieridae has three options to develop Goldboro:

- Approve a 1 train, 5 MMTPA project with smaller utilities and no immediate plans for future expansion ("Smaller Project");
- Approve a 2 train, 10 MMTPA project with full utilities and a phased construction schedule with Train 1 built in the near term and the second train built at a later time ("Phased Approach"); or
- Approve a 2 train, 10 MMTPA project with both trains built concurrently ("Full Project").

The company has decided to implement the phased approach and focus on the development of Train 1 with full utilities for a 2 Train facility.

Key Milestones

The following is a discussion of the key milestones for the Phased Approach option. Under the Full Project these milestones would be the same with a modification to staging or the timing. Under the Smaller Project, the milestones around securing sales contracts, natural gas supply, and gas transportation would be adjusted for the lower expected volumes, and the engineering and design would be adjusted for the smaller facility. However, the remaining milestones would be the same as the other options.

Milestone	Status
Secure sales contracts for 10 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 approximately 1.4 billion cubic feet per day of natural gas, and the related infrastructure improvements required to supply the 10 MMTPA of LNG to the proposed Goldboro LNG Facility.	• Effective December 20, 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 acquired Pétrolia Inc. on October 24, 2017. As a result of this acquisition, Pieridae holds Exploration Licenses for roughly 4,600 km^2 of territory in the eastern part of Quebec. • In partnership with ORLEN Upstream Canada Ltd., Pieridae has working interests in natural gas properties in properties prospective for natural gas in New Brunswick.

	• 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. • Commencement of open book estimates for the primary EPC contract. This work has been awarded to KBR.
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.	• The NSURB issued the permit to construct the Goldboro LNG Facility on November 5, 2018. • The Minister of the Environment of Nova Scotia, issued an Environmental Assessment Approval to Pieridae Energy for the Goldboro LNG Natural Gas Liquefacton Plant and Marine Terminal, on March 31, 2014. Extensions were granted in August 2015 and October 2017. As per the 2017 extension, The Environment Assessment Approval requires construction to start before March 21, 2019. This condition was satisfied as a result of the completion of the site clearing which occurred in early 2018. • The Canadian Environmental Assessment Agency determined that a federal environmental assessment was not required. • Export Licence GL-313 approved the export from Canada up to 16.675 billion cubic meters (589 Bcf) of natural gas each year for a period of twenty years commencing on the date of first export. • Import Licence GL-314 approved the import up to 11.845 billion cubic meters (418 Bcf) of natural gas each year for a period of twenty years commencing on the date of first import. • Department of Energy of the United States (the "US DOE") issued an order ("Order No. 3639") granting authorization to export annually, by pipeline, up to 292 Bcf of natural gas sourced from the United States to Canada for end use in Canada or, after liquefaction in Canada, to export, by vessel. • US DOE issued an order ("Order No. 3768") granting authorization to export annually, using the capacity of the U.S. portion of the M&NP that is in service as of February 5, 2016, up to 292 Bcf of natural gas sourced from the United States to Canada for liquefaction and to re-export as LNG to countries with which the United States does not have a free-trade agreement.

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 to cooperate on Goldboro and facilitate meaningful Mi'kmaq particpation in and support for Goldboro.
Secure the required funding.	• Confirmation of eligibility in principle for up to US $4.5 billion of untied loan guarantee by the German federal government under its UFK program to support both midstream and upstream development. • Pieridae has engaged the following financial advisors - SG Americas Securities (debt); KfW bank (debt) .

More information on the above noted contracts and regulatory efforts can be found in the Company's 2018 AIF which can be found on www.sedar.com.

Project Economics

Pieridae has developed robust economic models to forecast the future economics of Goldboro. With a focus on Train 1 under the phased approach to construction, we estimate future operating costs to be approximately USD $4.50/mmbtu. Operating costs include operating cash costs such as upstream costs net of non gas revenues (i.e. Sulphur and Condensate), pipeline Tolls, LNG plant costs and contractually obligated costs associated with the Train 1 Offtake agreement (Buyer's margin, shipping and regas costs). Adding expected debt and equity return costs total costs are expected to by approximately USD $7.50/mmbtu. We forecast a potential sales price of over USD $8.00/mmbtu. Overall the project has the potential to achieve an unlevered project IRR in the range of 15-20%.

Final Investment Decision ("FID")

The total cost of the project is expected to be approximately USD $10.0 billion, split US $4.5 billion for Train 1, USD $3.5 billion for Train 2, and US $2.0 billion for upstream development. These costs will be refined as we get closer to project construction. Construction phases include, but are not limited to, site preparation, road detour, procurement, camp design and construction, module fabrication and train installation, jetty construction and installation, tank construction, utilities and off-site installation and commissioning.

Pieridae expected to make a soft FID during the first half of 2019. This soft FID would have allowed the Company to start the process of identifying capital partners and funding sources. Milestones for this decision include 1) securing natural gas transportation from Western Canada to Goldboro, 2) obtaining additional support from the German government to support upstream development, and 3) receiving the Permit to Construct from the Nova Scotia government. These milestones have all been met. In addition to these activities, Pieridae continues to negotiate a firm, lump-sum EPC agreement for construction of Goldboro. Subsequent to year end, the Company decided to award an engagement to validate the FEED and complete the OBE to EPC contractor KBR. As the original FEED was completed by McDermott CB&I, this change in EPC partner has delayed the declaration of soft FID. This declaration is still expected to occur in 2019. Final FID milestones and timing will be determined after the completion of the Open Book Estimate and finalization of the firm, lump-sum EPC contract.

Financing

The Company will be looking to initially raise approximately USD $6.0 billion to fund the construction of the project under the Phased Approach. Expectations are that it will be structured with a high debt to equity ratio, and that it will occur in stages. After finalization of the EPC contract and OBE, the lenders will be in position to complete their due diligence and proceed with their respective investment decisions. Lenders are expected to provide cash on an ongoing basis throughout construction. Financing will also be required to bridge to the lenders' investment decisions. This bridge financing is expected to be comprised of both debt and equity. The Company believes that it will have the capacity to secure the funding required.

Upstream Assets

Western Canada Properties

Through its acquisition of Ikkuma, Pieridae now holds conventional Foothills reservoirs in Western Canada. Ikkuma pursued exploration plays that were high growth, low decline, gas weighted, oil upside in conventional by-passed reservoirs. Ikkuma's crude oil, natural gas and NGL production is sold primarily through marketing companies at current market prices. Crude oil contracts are generally month to month and cancellable on 30 days' notice, NGL contracts are generally for a period of up to one year and are cancellable on 90 days' notice and natural gas contracts are generally for one year.

Pieridae continues to evaluate other gas assets in the Alberta Foothills where it believes further exploitation, development and exploration opportunities exist.

Quebec Properties

Pieridae holds Exploration Licenses for territory in Eastern Quebec. As mentioned earlier, in September 2018, the Quebec Government adopted the Petroleum Resources Act. This Act, in addition to the ongoing moratorium on exploration and development, put severe restrictions on the exploration and exploitation of oil and gas reserves in the province, and caused management to re-evaluate its prospects in the province. Management concluded that components of the legislation dealing with the proximity of exploration activity to urban areas and bodies of water would restrict its ability to capitalize on certain licenses, and consequently that indicators of impairment were present. Concurrently, in light of pending fivefold increases in Exploration License Fees, management extended its impairment assessment to include those licenses that would be sub-optimal targets for additional expenditures. Upon completion of this evaluation, the Company relinquished nearly half of the land area covered by the Exploration Licenses held at December 31, 2017, and recorded impairment of $17.0 million. This impairment was recorded in Q3 2018. The Company will be seeking compensation from the Quebec government. As of December 31, 2018, no oil or natural gas reserves from Quebec have been assigned to any of the properties in which Pieridae has an interest.

New Brunswick Properties

Pieridae also holds a 20 percent interest in Pieridae Production LP, which has a working interest in certain natural gas resource properties in New Brunswick. However, an ongoing government-imposed moratorium on the use of hydraulic fracturing in New Brunswick prevents any exploration and development in the province at this time. And while the newly elected government in the province committed to selectively allowing hydraulic fracturing to occur in the province, it has not done so yet.

Business Environment

(Yearly average)		2018		2017
Dated Brent benchmark price (USD$/bbl)	$	**71.12**	$	54.38
WCS heavy differential from WTI (USD$/bbl)	$	**26.29**	$	11.97
Condensate benchmark price (USD$/bbl)	$	**60.98**	$	51.65
NYMEX benchmark price (USD$/MMBtu)	$	**3.08**	$	3.11
AECO benchmark price (CAD$/GJ)	$	**1.45**	$	2.30
NBP UK natural gas benchmark price (USD$/MMBtu)	$	**7.93**	$	5.83
US/Canadian dollar average exchange rate (USD$)		**0.7717**		0.7701
US/Canadian dollar year end exchange rate (USD$)		**0.7328**		0.7988

Substantially all of the Company's long-term production is expected to be sold based on US dollar benchmark pricing. Specifically, international natural gas prices closely correlate to Brent indices. Canadian natural gas pricing is primarily based on Alberta AECO reference pricing, which is derived from the NYMEX reference pricing and adjusted for its basis or location differential to the NYMEX delivery point at Henry Hub. The Company's realized prices can be sensitive to fluctuations in market prices and foreign exchange rates.

Consolidated Financial Highlights

Prior to its acquisition of Ikkuma, Pieridae was predominantly a development company focused on obtaining approvals, customers and financing for Goldboro. The Company held upstream assets in Quebec and New Brunswick, however efforts to develop those properties have been constrained due to regulatory restrictions in Quebec and a moratorium in New Brunswick on hydraulic fracturing. With the Ikkuma acquisition, Pieridae now has active upstream petroleum and natural gas operations. Prior to the Ikkuma acquisition, Pieridae's only revenue was earned as a service provider in Quebec. Going forward, the majority of the Company's revenues will come from the sale of natural gas, and sulphur and other petroleum by-products generated from the production of natural gas.

	For the year ended				For the 3-months ended			
($000s, except per share amounts)		2018		2017		2018		2017
Revenue	$	**2,730**	$	90	$	**2,432**	$	90
Operating Expenses	$	**9,144**	$	1,549	$	**5,093**	$	785
Administrative Expenses	$	**7,499**	$	898	$	**3,971**	$	248
Net loss	$	**34,915**	$	8,924	$	**8,870**	$	3,152
Net loss per common share – basic and diluted	$	**0.68**	$	0.24	$	**0.17**	$	0.08
Cash flow from operating activities	$	**(8,407)**	$	(10,239)	$	**(1,335)**	$	(11,879)
Capital expenditures	$	**2,234**	$	22	$	**258**	$	22
Project expenditures (1)	$	**9,286**	$	6,640	$	**2,981**	$	6,512
Net Working Capital (1)	$	**(84,061)**	$	10,989	$	**(84,061)**	$	10,989
Shareholders' equity	$	**91,900**	$	59,469	$	**91,900**	$	59,469

(1) Non-IFRS measure. See page47 in the MD&A.

Pieridae's financial results for 2018 reflect the fact the Company was still predominantly a development stage company for most of the year. The Company's 2018 consolidated financial statements include the results of operations of Ikkuma for the eleven-day period after the December 20, 2018, closing date. This still represents a significant milestone for the Company as it recorded its first ever petroleum and natural gas operating revenue. The Company recognized a portion of Ikkuma's petroleum and natural gas revenue, as well as operating, administrative and transportation expenses. This, coupled with the impairment of $17.0 million recorded in Q3 of 2018, resulted in a loss before taxes of $34.9 million for the year. This compares to a loss of $9.3 million in 2017. Overall the acquisition of Ikkuma 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.

The acquisition of Ikkuma contributed to a significant increase in the assets and liabilities of the Company. The addition of Ikkuma's resource properties (assessed fair value $298.0 million) and accounts receivable (assessed fair value $15.4 million) caused total assets to grow from $74.0 million at December 31, 2017 to $370.7 million at December 31, 2018. Ikkuma's accounts payable (assessed fair value $53.2 million) and provision for site restoration (assessed fair value $155.0 million) caused total liabilities to increase to $278.9 million at December 31, 2018, compared to $14.7 million at December 31, 2017. The increase also reflects the $50.0 million of term debt undertaken by the Company to repay Ikkuma's outstanding debt on closing. Share capital increased by $64.5 million over the same period reflecting the $56.1 million of equity issued on the Ikkuma acquisition, and the concurrent closing of a private placement for $8.0 million.

Excluding the working capital deficit of $35.7 million acquired from Ikkuma, the Company's cash flows related to operating activities were negative $8.4 million for the year ended December 31, 2018. This compares to negative $10.2 million in 2017. Restrictions on exploration in both Quebec and New Brunswick limited capital expenditures to $2.2 million in 2018 compared to $12.4 million in 2017.

Revenues

	For the year ended				For the 3-months ended			
($000s)		**2018**		2017		**2018**		2017
Petroleum and natural gas, net of royalties	**$**	**2,321**	$	-	**$**	**2,321**	$	-
Project management	**$**	**331**	$	90	**$**	**33**	$	90
Other income	**$**	**78**	$	-	**$**	**78**	$	-
Total	**$**	**2,730**	**$**	**90**	**$**	**2,432**	**$**	**90**

The Company recognized petroleum and natural gas revenue of $2.3 million for the eleven days ended December 31, 2018. For the year ended December 31, 2018, the Company's results of operations include Ikkuma's revenues and expenses estimated to have occurred from December 21 to 31, 2018. Petroleum and natural gas revenues (net of royalties) for the year ended December 31, 2018 were $2.3 million. There were no comparable sales in 2017. Project management revenues are management fees invoiced by the Company as a project operator for restoration work in Quebec. The decrease in Q4 2018 reflects the winding down of activity due to the ongoing moratorium on exploration and development in Quebec and Anticosti. Other income represents processing and contract operating income attributed to the Company since the acquisition of Ikkuma.

Operating expenses

	For the year ended				For the 3-months ended			
($000s)		2018		2017		2018		2017
Engineering and consulting	$	4,304	$	945	$	2,214	$	160
Production expenses	$	1,577	$	-	$	1,577	$	-
Land improvements	$	491	$	-	$	275	$	-
Salaries and benefits	$	1,729	$	503	$	364	$	503
Other	$	1,043	$	101	$	663	$	101
Total	$	9,144	$	1,549	$	5,093	$	764

Operating expenses for the three months and year ended December 31, 2018, increased by $4.3 million and $7.6 million, respectively, compared to equivalent periods in 2017. Part of this increase was attributable to the $2.1 million of Ikkuma's operating expenses recognized for the eleven days ended December 31, 2018. The balance of the increases were due to the Company's efforts to satisfy various additional requirements for Goldboro, including construction approvals, environmental assessments and the FEED Engineering Compliance Certification. Many consultants and engineering firms were engaged on these endeavours throughout the quarter and the year. The increase is also due to 2018 reflecting a full year of operating costs associated with the Company's 2017 acquisition of Pétrolia, versus the roughly two months of activity that were included in 2017.

Administrative expenses

	For the year ended				For the 3-months ended			
($000s)		2018		2017		2018		2017
Salaries and benefits	$	2,069	$	462	$	1,051	$	72
Professional Fees	$	4,210	$	244	$	2,318	$	176
Other	$	1,220	$	192	$	602	$	-
Total	$	7,499	$	898	$	3,971	$	248

Administrative expenses for the three months and year ended December 31, 2018, increased by $3.7 million and $6.6 million, respectively, compared to the same periods in 2017. Ikkuma added $0.3 million of administrative expenses in the quarter. The balance of the increases were attributable to a number of other factors. The Company engaged three different financial advisors to assist with the debt and equity financing efforts. This accounted for roughly $1.5 million of the increase. The Company also engaged a number of external advisors to assist with the close of the Ikkuma acquisition. Transaction costs were approximately $1.7 million. The balance of the increase would be due to the Company reflecting twelve months of Pétrolia operations in 2018, compared to the two months of activity included in 2017.

Transportation expenses

	For the year ended				For the 3-months ended			
($000s)		2018		2017		2018		2017
Transportation	$	206	$	-	$	206	$	-

Transportation expenses reflect Ikkuma's transportation expenses for the ten days ended December 31, 2018. There were no similar charges in the prior quarter or the prior year.

Depletion and depreciation

($000s)	For the year ended				For the 3-months ended			
		2018		2017		**2018**		2017
Depletion and depreciation	**$**	**700**	$	20	**$**	**650**	$	15

Depletion and depreciation for the three months and year ended December 31, 2018, includes $632 thousand of depletion associated with Ikkuma's production for the eleven days ended December 31, 2018. There was no comparable charge in 2017. Depreciation expense increased from $20 thousand in 2017 to $68 thousand in 2018. The increase is due to the Company recording a full year's depreciation on the assets it acquired in the Pétrolia acquisition which closed in October 2017.

Impairment

($000s)	For the year ended				For the 3-months ended			
		2018		2017		**2018**		2017
Impairment	**$**	**16,985**	$	-	**$**	**-**	$	-

As discussed earlier, the $17.0 million of impairment recognized in 2018 resulted from the Company evaluating the impact of new legislation on its Exploration Licenses in Quebec. Management concluded that the changes would profoundly impact its ability to obtain any future benefits associated with certain licenses. These licenses were relinquished, and the costs capitalized to date were written-off. There was no impairment recorded in either Q4 2017 or Q4 2018.

Share-based compensation

($000s)	For the year ended				For the 3-months ended			
		2018		2017		**2018**		2017
Share-based compensation	**$**	**3,164**	$	3,615	**$**	**1,036**	$	2,550

Share-based compensation for the three months and year ended December 31, 2018, decreased by $1.5 million and $451 thousand, respectively, from 2017 to 2018. Despite no options being granted in 2017, the 2017 share-based compensation expense exceeded 2018 due to the continued recognition, in 2017, of 2015 and 2016 option grants. These both vested over four years. Options that were granted in 2018 vest over five years. Consequently, the expense is recognized over a longer period. The decrease is also due to the number of options that were forfeited and cancelled due to resignations which occurred in late 2017 and 2018.

Financial income and expenses

($000s)	For the year ended				For the 3-months ended			
		2018		2017		**2018**		2017
Interest Expense	**$**	**304**	$	844	**$**	**274**	$	85
Interest Income	**$**	**(405)**	$	(71)	**$**	**(236)**	$	(71)
Accretion	**$**	**53**	$	398	**$**	**13**	$	-
Loss on conversion right	**$**	**-**	$	2,257	**$**	**-**	$	730
Other	**$**	**-**	$	(253)	**$**	**-**	$	(725)
Net financial expense (income)	**$**	**(48)**	$	3,175	**$**	**51**	$	19

The decrease in financial income and expenses for the year ended December 31, 2018, is almost entirely attributable to the fact that the Company recorded a $2.3 million loss on conversion right in 2017. The loss resulted from a US $5.0 million shareholder loan being converted to equity in October 2017. There was also interest expense of $1.2 million related to the loan recorded in 2017, offset by a foreign exchange gain of $1.0 million.

Segmented Information

With the acquisition of Ikkuma, the Company has active upstream operations. Therefore, management now evaluates its operations in two segments – Upstream and LNG. As integration activities for Ikkuma were not completed for December 31, 2018, Ikkuma's corporate costs are included in the Upstream segment and Pieridae's corporate costs are included in the LNG segment.

	For the year ended and as at December 31				For the 3-months ended and as at December 31			
($000s)		**2018**		2017		**2018**		2017
Revenue								
Upstream	**$**	**2,730**	$	90	**$**	**2,432**	$	90
LNG	**$**	**-**	$	-	**$**	**-**	$	-
	$	**2,730**	$	90	**$**	**2,432**	$	90
Expenses								
Upstream	**$**	**27,282**	$	91	**$**	**10,049**	$	91
LNG	**$**	**10,384**	$	9,286	**$**	**1,252**	$	3,514
	$	**37,666**	$	9,377	**$**	**11,301**	$	3,605
Net loss								
Upstream	**$**	**24,552**	$	1	**$**	**7,618**	$	1
LNG	**$**	**10,363**	$	8,923	**$**	**1,252**	$	3,151
	$	**34,915**	$	8,924	**$**	**8,870**	$	3,152
Assets								
Upstream	**$**	**357,287**	$	44,057	**$**	**357,287**	$	44,057
LNG	**$**	**13,386**	$	29,988	**$**	**13,386**	$	29,988
	$	**370,673**	$	74,045	**$**	**370,673**	$	74,045

Upstream Segment

The upstream segment includes the operations and assets of Ikkuma's Western Canadian operations as well as Pieridae's Quebec and New Brunswick upstream activities. The financial results of Ikkuma have been included from the date of acquisition on December 20, 2018 to December 31, 2018.

REVENUE

	For the year ended				For the 3-months ended			
($000s)		**2018**		2017		**2018**		2017
Crude Oil and NGLs	**$**	**660**	$	-	**$**	**660**	$	-
Natural Gas	**$**	**1,796**	$	-	**$**	**1,796**	$	-
Royalties	**$**	**(135)**	$	-	**$**	**(135)**	$	-
Total petroleum and natural gas	**$**	**2,321**	$	-	**$**	**2,321**	$	-
Project management	**$**	**331**	$	90	**$**	**34**	$	90
Other income	**$**	**78**	$	-	**$**	**78**	$	-
Total	**$**	**2,730**	**$**	**90**	**$**	**2,433**	**$**	**90**

For the year ended December 31, 2018, the Company's results of operations include Ikkuma's revenues and expenses from December 21 to 31, 2018. Petroleum and natural gas revenues (net of royalties) for the year ended December 31, 2018 were $2.3 million. There were no comparable revenues in 2017. Project management revenues are management fees invoiced by the Company as a project operator for restoration work in Quebec. The decrease in Q4 2018 reflects the winding down of activity due to the ongoing moratorium on exploration and development in Quebec. Other income represents processing and contract operating income attributed to the Company since the acquisition of Ikkuma.

DAILY PRODUCTION

Daily production was measured from December 21 to December 31, 2018 based on the production assets acquired in the Ikkuma transaction.

	As at December 31,	
	2018	2017
Crude Oil and NGLs (bbl/d)	**350**	-
Natural gas (Mcf/d)	**102,952**	-
Total barrels of oil equivalent (BOE/d)	**17,509**	-
Product Mix:		
Light and medium crude oil and NGLs	**2%**	-
Natural gas	**98%**	-

EXPENSES

	For the year ended				For the 3-months ended			
($000s)		**2018**		2017		**2018**		2017
Operating expenses	**$**	**3,054**	$	72	**$**	**3,051**	$	72
Administrative expenses	**$**	**6,198**	$	-	**$**	**5,950**	$	-
Transportation	**$**	**206**	$	-	**$**	**206**	$	-
Impairment of assets	**$**	**16,985**	$	-	**$**	**-**	$	-
Depletion and depreciation	**$**	**700**	$	19	**$**	**650**	$	15
Financial expenses (income)	**$**	**139**	$	-	**$**	**255**	$	-
Total	**$**	**27,282**	**$**	**91**	**$**	**10,112**	**$**	**87**

Operating expenses for the three months and year ended December 31, 2018, increased by $3.0 million for both the three- and twelve-month periods, compared to equivalent periods in 2017. Most of this increase was attributable to the $2.1 million of Ikkuma's operating expenses recognized for the period from acquisition to December 31, 2018. The increase is also due to 2018 reflecting a full year of operating costs associated with the Company's 2017 acquisition of Quebec based Pétrolia Inc., versus the roughly two months of activity that were included in 2017. The balance of the increases were due to the Company's efforts to satisfy various Quebec regulatory requirements.

Administrative expenses for the year ended December 31, 2018, increased by $6.2 million, compared to the same period in 2017. Ikkuma added $0.3 million of administrative expenses in the quarter. The balance of the increases were attributable to a number of other factors. The Company also engaged a number of external advisors to assist with the close of the Ikkuma acquisition. Transaction costs were approximately $1.7 million. The balance of the increase would be due to the Company reflecting twelve months of Quebec based Pétrolia operations in 2018, compared to the two months of activity included in 2017.

Transportation expenses reflect Ikkuma's transportation expenses for the ten days ended December 31, 2018. There were no similar charges in the prior quarter or the prior year.

As discussed earlier, the $17.0 million of impairment recognized in 2018 resulted from the Company evaluating the impact of new legislation on its Exploration Licenses in Quebec. Management concluded that the changes would profoundly impact its ability to obtain any future benefits associated with certain licenses. These licenses were relinquished, and the costs capitalized to date were written-off. There was no impairment recorded in either Q4 2017 or Q4 2018.

Depletion and depreciation for the three months and year ended December 31, 2018, includes $0.6 million of depletion associated with Ikkuma's production for the eleven days ended December 31, 2018. The balance of the increase is due to the Company recording a full year's depreciation on the assets it acquired in the Pétrolia acquisition which closed in October 2017.

Financial expenses increased $0.1 million for the year ended December 31, 2018 compared to the prior year. This was primarily driven by accretion of decommissioning obligations related to the Ikkuma assets.

ASSETS

	As at December 31			
($000s, except per share amounts)		**2018**		2017
Petroleum and natural gas properties and equipment	$	**301,603**	$	-
Exploration and evaluation assets	$	**27,573**	$	42,827
Other assets	$	**28,111**	$	1,230
	$	**357,287**	**$**	**44,057**

With the Ikkuma acquisition, acquired assets were recognized at a value of $298.0 million. In Q3, an asset impairment of $17.0 million was recognized on the Quebec assets.

LNG Segment

The LNG segment includes the development activities on Goldboro and the corporate costs related to Pieridae. As this segment is in the developmental stage, there is no revenue being generated.

EXPENSES

	For the year ended				For the 3-months ended			
($000s)		**2018**		2017		**2018**		2017
Operating expenses	$	**6,090**	$	1,477	$	**1,667**	$	692
Administrative expenses	$	**1,301**	$	898	$	**1,143**	$	248
Share-based compensation	$	**3,164**	$	3,615	$	**1,036**	$	2,550
Loss on foreign exchange	$	**4**	$	-	$	**292**	$	-
Depletion and depreciation	$	**-**	$	1	$	**-**	$	-
Financial expenses (income)	$	**(187)**	$	3,175	$	**(306)**	$	19
Share of net loss of associate	$	**12**	$	120	$	**3**	$	30
Total	$	**10,384**	**$**	**9,286**	$	**3,835**	**$**	**3,539**

Operating expenses for the three months and year ended December 31, 2018, increased by $1.0 million and $4.6 million, respectively, compared to equivalent periods in 2017. The increases were due to the Company's efforts to satisfy various requirements for Goldboro, including construction approvals, environmental assessments and the FEED Engineering Compliance Certification. Many consultants and engineering firms were engaged on these endeavours throughout the quarter and the year.

Administrative expenses for the three months and year ended December 31, 2018, increased by $0.9 million and $0.4 million, respectively, compared to the same period in 2017. This reflects the increasing head count and professional fees versus 2017.

The decrease in financial expenses for the year ended December 31, 2018, is almost entirely attributable to the fact that the Company recorded a $2.3 million loss on conversion right in 2017. The loss resulted from a US $5.0 million shareholder loan being converted to equity in October 2017. There was also interest expense of $1.2 million related to the loan recorded in 2017, offset by a foreign exchange gain of $1.0 million.

Summary of quarterly results

The Company's quarterly results may fluctuate significantly from quarter to quarter owing to the fact that the Company's activities have been primarily in the development stage.

($000s, except per share amounts)		Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenues	$	**2,432**	215	66	16	90	-	-	-
Operating expenses	$	**5,093**	2,018	1,575	1,013	2,493	877	48	733
Administrative expenses	$	**3,971**	1,707	1,759	1,682	1,063	44	631	193
Net loss attributable to equity holders	$	**(8,848)**	(20,368)	(2,711)	(2,942)	(3,091)	(2,131)	(1,572)	(2,058)
Net loss per share attributable to equity holders (basic and diluted)	$	**(0.17)**	(0.40)	(0.05)	(0.06)	(0.06)	(0.06)	(0.05)	(0.06)

Prior to Q4 2017, Pieridae was solely involved in the development of Goldboro so the operations during those quarters reflect that activity. In Q4 2017, Pieridae acquire Quebec based Petrolia which had primarily undeveloped upstream properties with the operating and administrative costs related to those activities. In Q3 2018, Pieridae recognized an impairment on some of those Quebec assets as explained previously 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. With the evolution of the organization, historical results are not indicative of, and should not be relied upon to estimate, future financial results.

Project Investment

	For the year ended				For the 3-months ended			
($000s)		**2018**		2017		**2018**		2017
Capex	$	**2,234**	$	211	$	**258**	$	211
Business acquisitions	$	**297,998**	$	42,616	$	**297,998**	$	42,616
Goldboro spending (1)	$	**6,714**	$	6,857	$	**2,385**	$	2,569
Total	$	**306,946**	**$**	**49,684**	$	**300,641**	**$**	**45,396**

(1) Non-IFRS measure. See page 46 in the MD&A.

The company has invested more than $60 million to date in Goldboro. Expenses have been mostly incurred to complete the FEED and to obtaining the environmental assessment approval. In 2018, the company incurred expenses related to Goldboro for the design appraisal performed in the process of obtaining the permit to construct and the beginning of the open book estimate. Fees will continue to be incurred to address all the environmental conditions related to the environmental assessment approval. In order to keep the project on schedule, certain site preparation work will also need to be completed in 2019 including completion of the land preparation and a road detour. The completion of this early work will be dependent on the company obtaining further financing.

Capital Resources and Liquidity

	As at December 31			
($000s)		2018		2017
Cash and cash equivalents	$	7,651	$	19,619
Cash and cash equivalents held for exploration purposes	$	1,461	$	1,619
Restricted cash	$	8,626	$	-
Accounts receivable	$	16,187	$	1,092
Prepaid expenses	$	2,250	$	122
Trade and other payables	$	(60,922)	$	(2,210)
Current portion of deferred lease inducements	$	(20)	$	(19)
Current portion of term debt	$	(50,007)	$	(7)
Partner advances for planned exploration work	$	(624)	$	(679)
Provision for contingent liability	$	(530)	$	(583)
Current portion of the provision for site restoration	$	-	$	-
Flow-through shares premium	$	(82)	$	(104)
Promissory notes	$	-	$	(25)
Deferred accounts payable	$	(8,051)	$	(7,836)
Net working capital (deficit)	$	**(84,061)**	$	**10,989**

As at December 31, 2018, Pieridae had a consolidated cash position of 9.1 million compared to a cash position of $21.2 million as at December 31, 2017. The working capital deficit was $84.1 million compared to net working capital of $11.0 million at December 31, 2017. The $95.2 million decrease in working capital is primarily attributable to the $50.0 million in term debt due in September 2019, plus the $35.7 million working capital deficit Pieridae assumed on the Ikkuma acquisition. The Company is actively working with its financial advisors to source sufficient funding to allow it to meet these obligations, to grow its upstream asset base, and to allow it to proceed with construction of the Goldboro LNG Facility once an FID has been made. 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 business case for Goldboro. These factors all contributed to its ability secure $50 million in term debt to close the Ikkuma acquisition, and to close two private placements in the past four months.

Pieridae's capital strategy is aligned with its business strategy and is focused on ensuring that we have sufficient liquidity to fund our operations and project development. Prior to the Ikkuma acquisition, Pieridae's principal sources of liquidity were equity offerings. With the Ikkuma acquisition, the Company will also have a source of potential liquidity from cashflows attributable to active operations. At December 31, 2018, our capital structure was comprised of share capital, working capital and term debt.

Sources and Uses of Cash Flows

	For the year ended			
($000s)		2018		2017
Cash flows related to operating activities	$	(8,407)	$	(10,239)
Cash flows related to investing activities	$	5,173	$	12,418
Cash flows related to financing activities	$	(8,759)	$	18,769

Cash flows related to operating activities decreased from $10.2 million in 2017 to $8.4 million in 2018. This decrease is primarily related to the $2.3 million loss on conversion right which occurred in 2017.

Cash flows related to investing activities decreased from $12.4 million in 2017 to $5.2 million in2018. Both years reflect cash added through business combinations. In 2017 $12.6 million was added through Pieridae's reverse takeover of Petrolia. In 2018 Pieridae recorded $6.1 million in additional cash from the Ikkuma acquisition, and $8.0 million in restricted cash. Slightly reduced capital expenditures in 2018 accounted for the rest of the difference.

Cash flows related to financing activities decreased from a net inflow of $18.8 in 2017 to a net outflow of $8.8 in 2018. This large outflow primarily due to the net $15.9 million in payments made to repay Ikkuma's outstanding debt at close.

Capital resources

Our capital structure is composed of total shareholders' equity, and loans and term debt, less cash and cash equivalents. The following table summarizes our capital structure at December 31, 2018.

	As at December 31			
($000s)		2018		2017
Cash and cash equivalents	$	9,112	$	21,238
Less: loans and term debt	$	(50,007)	$	(14)
Net cash and cash equivalents (debt)	$	(40,895)	$	21,224
Shareholders' equity	$	91,900	$	59,469

CASH AND CASH EQUIVALENTS

The balance of $9.1 million in cash and cash equivalents at December 31, 2018 does not include $8.6 million pledged as security for various Letters of Credit ("LC's") required to be posted with provincial agencies and other companies, to facilitate the Company's ongoing operations. These LC's have varying maturities. Restricted cash of $5.5 million related to Ikkuma's former hedging program was still outstanding at December 31, 2018. These funds were returned in January 2019 when the hedging program was collapsed. LC's worth $2.5 million renew automatically every anniversary date. LC's worth $0.6 million mature within one year. A $1.0 million LC matures in 2020 and are recorded in non-current assets.

An additional $0.7 million of the cash and cash equivalents are held for exploration purposes related to flow-through shares, representing the unexpended proceeds of a flow-through share financing. According to restrictions imposed under financing arrangement, the Company was required to spend these funds on the exploration of oil and gas properties in Quebec. of the Company also holds $0.7 million related to the Bourque project in Quebec. This represents the remaining cash from partner advances which must be spent on exploration work on the Bourque property. The net cash and cash equivalents not restricted is $7.7million.

LOANS AND TERM DEBT

On December 20, 2018, the Company entered into a Senior Secured Credit Agreement for a $50.0 million non-revolving, term credit facility. The facility is secured by a fixed and floating debenture over all the assets of the Company. It bears interest at 9.5%, which is payable upon maturity. The facility is repayable on September 30, 2019. The Company used the proceeds to fund the repayment of Ikkuma's outstanding debt facilities of $65.7 million on the close of the acquisition.

Share Capital

As of December 31, 2018, the Company had 74,516,594 common shares outstanding (December 31, 2017: 50,481,197). During the year the Company issued 94,172 shares pursuant to its share-based compensation program, 21,582,401 on closing of the Ikkuma acquisition, and 2,358,824 shares in a private placement.

As of December 31, 2018, 1,179,410 warrants (December 31, 2017: 343,747) were outstanding. During the year 343,747 warrants expired, 1,179,410 warrants were issued with the private placement, and 1,300,050 warrants were issued with the Ikkuma acquisition.

As at December 31, 2018, there were 2,653,394 stock options outstanding. Exercise prices range from $0.01 to $8.04 During the year, 52,446 stock options were exercised for proceeds of $148 thousand.

At April 24, 2019, 84,121,990 common shares were outstanding, 1,889,755 warrants were outstanding, and 2,653,394 stock options were outstanding with exercise prices ranging from $0.01 to $8.04.

Commitments and Contingencies

The Company has a number of financial obligations that are incurred in the ordinary course of business. As of December 31, 2018, these obligations, and the expected timing of these obligations, are detailed below:

($000s)		2019	2020	2021	2022	Thereafter	Total
Leases	$	537	217	125	126	706	**1,711**
Quebec license fees	$	241	241	241	-	-	**723**
Interest on debt	$	3,562	-	-	-	-	**3,562**
Firm transportation	$	6,913	4,174	1,591	1,228	3,730	**17,636**
Total	$	**11,253**	**4,632**	**1,957**	**1,354**	**4,436**	**23,632**

The Company is financed in part by the issuance of flow-through shares. However, although it has taken all the necessary measures in this regard, there is no guarantee that the funds spent by the Company regarding these shares will be deemed eligible by tax authorities in the event of an audit. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors. As at December 31, 2018, the balance of eligible expenses to be incurred amounted to $0.5 million (December 31, 2017: $0.6 million). The eligible expenses were to be incurred no later than December 31, 2018. However, due to the moratorium on exploration and development activity in the province of Quebec, Pieridae was not able to fulfill its obligations.

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 consolidated financial statements as at December 31, 2018, nor are any such arrangements outstanding as of the date of this MD&A.

Financial Instruments and Risk Management

The Company's financial assets and liabilities expose it to various risks. The following analysis provides an assessment of those risks as at December 31, 2018.

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. It arises principally from the Company's receivables from partners in jointly owned assets, and natural gas marketers.

Substantially all 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 production. 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 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 Company's maximum credit exposure. As at December 31, 2018 and 2017, the Corporation's accounts receivables consisted of:

	As at December 31			
($000s)		2018		2017
Petroleum and natural gas marketers	$	9,832	$	-
Receivables from partners in jointly owned assets	$	4,069	$	885
Other (primarily government receivables)	$	2,286	$	207
Total	$	16,187	$	1,092

As at December 31, 2018 and 2017, the Corporation's accounts receivables are aged as follows:

	As at December 31			
($000s)		2018		2017
Current (less than 90 days)	$	14,954	$	1,092
Past due (more than 90 days)	$	1,233	$	-
Total	$	16,187	$	1,092

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.

Interest rate risk

The Company is potentially exposed to fair value risk through increases in interest rates. While central banks have taken pause on rate increases of late, there is no guarantee that that situation will persist. Any rate increases will have an impact on any debt financing negotiated by Pieridae as it looks to raise capital to fund its Goldboro LNG project.

Currency risk

The Company is also exposed to fluctuations in foreign exchange rates as certain accounts payable and accrued liabilities and commitments are denominated in US dollar, UK pound sterling and Euro. These risks will be materially enhanced if the Company secures debt financing denominated in any currency other than Canadian dollars. If the Canadian dollar was to change by five percent against the various currency exposures, the impact to the foreign exchange gain or loss would have been approximately $0.3 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.

Price risk

Now that the Company is has upstream natural gas assets, it is vulnerable to fluctuations in commodity prices. Fluctuations in commodity prices, specifically the prices for natural gas and LNG, will have a significant impact on the Company's cash flows and its final investment decision for the LNG project. These commodity prices also have a significant impact on the Company's ability to attract the necessary investment to ultimately construct the proposed Goldboro LNG Facility. As the Company advances toward a final investment decision, and pursues the required financing, it will evaluate a number of options to potentially manage this risk.

Critical Accounting Policies, Estimates and Judgements

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.

Critical accounting judgments

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.

IDENTIFICATION OF IMPAIRMENT INDICATORS

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

EXPLORATION AND EVALUATION

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.

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 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.

DECOMMISSIONING OBLIGATION

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of 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 and liability-specific discount rates to determine present value of these cash flows.

SHARE-BASED COMPENSATION

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.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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 December 31, 2018 consolidated financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 FINANCIAL INSTRUMENTS

As of January 1, 2018, the Company adopted IFRS 9 Financial Instruments, which is the result of the first phase of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. The classification of financial assets under IFRS 9 is generally based on the business model for managing the financial assets and the financial asset's contractual cash flow characteristics. IFRS-9 eliminates the previous IFRS 39 categories of held to maturity, loans and receivables and available for sale. The new standard introduces changes to hedge accounting requirements in order to align accounting with an entity's risk management activities.

The transition to IFRS 9 had no material effect on the Company's consolidated financial statements. Cash and cash equivalents, accounts receivables, accounts payables, term debt continue to be measured at amortized cost and are now classified as amortized cost.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

As of January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers. The standard replaces IAS 11 Construction Contracts; IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue-Barter Transactions Involving Advertising Services. The standard dictates the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue resulting from an entity's contracts with customers. The Company adopted IFRS 15 via the modified retrospective adoption approach effective January 1, 2018. Pieridae has reviewed its revenue streams and underlying contracts with customers using the IFRS 15 five-step model, which did not result in any changes to the comparative period or the opening deficit.

FUTURE ACCOUNTING POLICIES

As of January 1, 2019, the Company will adopt IFRS-16 Leases. IFRS 16 replaces IAS 17 - "Leases". IFRS 16 eliminates the distinction between operating leases and financing leases for lessees and requires balance sheet recognition for all leases. For lessees applying IFRS 16, a single recognition and measurement model for leases will apply, with the recognition of right-of-use ("ROU") assets and lease liabilities for most leases. All contracts that meet the definition of a lease under IFRS 16, including those presently accounted for as operating leases, will be recorded on the balance sheet. Certain short-term (less than 12 months), and low-value leases (as defined in the standard) are exempt from the requirements and may continue to be treated as an expense. Leases to explore for or use crude oil, natural gas, minerals and similar non-regenerative resources are exempt from the standard.

The standard may be applied retrospectively or using a modified retrospective approach. The Company has elected to use the modified retrospective approach which does not require restatement of prior period financial information. On initial adoption, Pieridae will elect to use the following practical expedients permitted under the standard:

- Certain short-term leases, and leases of low value assets that have been identified at January 1, 2019, will not be recognized on the balance sheet.
- At January 1, 2019, Pieridae will not recognize leases with terms ending within 12 months.

On adoption of IFRS 16, the Company will recognize lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as at January 1, 2019. The associated ROU assets will be measured at the amount equal to the lease liability on January 1, 2019, with no impact on retained earnings.

The Company's leases that will be recognized on its balance sheet at January 1, 2019 include office leases, equipment leases and vehicle leases.

The impact on the statement of income (loss) and comprehensive income (loss) will be as follows:

- Lower administrative expenses and operating costs.
- Higher finance expenses due to the interest recognized on the lease obligations; and
- Higher depreciation expense related to the ROU assets.

Under the new standard, the Company will report cash outflows for repayment of the principal portion of the lease liability as cash flows from financing activities. The interest portion of the lease payments will be classified as cash flows from operating activities.

The Company continues to finalize its evaluation of its contracts that are potentially leases under IFRS 16, as well as implementing changes to policies, internal controls, information systems, and business accounting processes.

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			
($000s)		2018		2017
Salaries and employee benefits	$	1,309	$	520
Director's fees	$	239	$	35
Total short-term employee benefits	$	1,548	$	555
Share-based compensation	$	1,869	$	450
Fees	$	52	$	63
Total compensation	$	3,469	$	**1,068**

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

Risk Factors

Risks inherent to the industry

This includes risks normally incident to the natural gas and LNG industries. It includes the fact that such industries are competitive, and the Company competes with numerous other participants to attract and retain customers for its LNG production. There is no assurance that the Company will be able to negotiate LNG sales and purchase agreements with new customers on favourable terms, that Uniper will not terminate the LNG Sale and Purchase Agreement in accordance with its terms, that potential customers (including Uniper) will be able to satisfy their obligations under such purchase and sale agreements, of which the Company will be substantially dependent upon, and that the Company will be able to procure a sufficient long-term supply of natural gas and long-term pipeline transportation capacity for use in the production of LNG.

It also includes risks inherent to the oil and natural gas exploration industry, such as the requirement of additional financing to support its operations. The Company will also compete with other companies that have greater financial resources in the context of business opportunities to participate in promising projects. There are natural risks that could cause damage to the environment, accidents or other unforeseen conditions that could result in damage to the properties of the Company, or to properties owned by third parties, which could lead to potential liability toward third parties. There can be no assurance that the development projects and exploration activities that may be undertaken in the future will result in additional reserves, or that the Company will succeed in drilling productive wells at low exploration costs. The Company is not able to plan with certainty regarding the impact that regulations implemented by the various levels of government will have on the Company's operations, including with respect to the hydraulic fracturing process. Oil and natural gas exploration and development activities in Canada may be subject to opposition from ecological, environmental, aboriginal and even political groups, and some properties may be subject to land claims by First Nations. Access restrictions may affect the Company's ability to procure drilling and related equipment and may delay any exploration and development activities.

Weakness in the Oil and Gas Industry

Recent market events and conditions including global excess oil and natural gas supply, actions taken by the Organization of the Petroleum Exporting Countries ("OPEC") and non-OPEC member countries' decisions on production growth, slowing growth in emerging economies, market volatility and disruptions in Asia, and sovereign debt levels in various countries have caused significant weakness and volatility in commodity prices. North American crude oil price differentials are also expected to continue to be volatile throughout 2019 which will have an impact on crude oil prices for Canadian producers. These events and conditions have caused a significant decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by the recent changes in government at the federal level and, in the case of Alberta, at the provincial level and the resultant uncertainty surrounding regulatory, tax and royalty changes that may be implemented by the new governments. In addition, the inability to get the necessary approvals or other delays to build pipelines and other facilities to provide better access to markets for the oil and gas industry in western Canada has led to additional uncertainty and reduced confidence in the oil and gas industry in western Canada. Lower commodity prices may also affect the volume and value of the Corporation's reserves especially as certain reserves become uneconomic. In addition, lower commodity prices have reduced, and are anticipated to continue to reduce the Corporation's cash flow which could result in a reduced capital expenditure budget. As a result, the Corporation may not be able to replace its production with additional reserves and both the Corporation's production and reserves could be reduced on a year over year basis. Any decrease in value of the Corporation's reserves may reduce the borrowing base under the Credit Facilities, which, depending on the level of the Corporation's indebtedness, could result in the Corporation having to repay a portion of its indebtedness. Given the current market conditions and the lack of confidence in the Canadian oil and gas industry, the Corporation may have difficulty raising additional funds in the future or if it is able to do it may be on unfavourable and highly dilutive terms.

Additional financing

The Company will require additional financing to support its operations. 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. 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, impairing its ability 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 may be affected.

Substantial Capital Requirements; Liquidity

Pieridae anticipates that it will make substantial capital expenditures for the acquisition, exploration development and production of LNG production, and oil and natural gas reserves in the future. If Pieridae's future revenues or reserves decline or additional financing is not achieved, Pieridae may have limited ability to expend the capital necessary to undertake or complete future drilling and construction programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Pieridae. Moreover, future activities may require Pieridae to alter its capitalization significantly. The inability of Pieridae to access sufficient capital for its operations could have a material adverse effect on Pieridae's financial condition, results of operations or prospects.

Capital Markets

Pieridae, along with all other oil and gas entities, may have restricted access to capital, bank debt and equity. The lending capacity of all financial institutions has diminished, and risk premiums have increased. As future capital expenditures will be financed out of funds generated from operations, non-core property dispositions, term debt and possible future equity sales, Pieridae's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry and Pieridae's securities in particular.

To the extent that external sources of capital become limited or unavailable or available on onerous terms, Pieridae's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected as a result.

Share Price Volatility

The price of common shares is subject to changes owing to numerous factors beyond the Corporation's control, including reports pertaining to new information, changes in the Corporation's financial position, sales of the Corporation's shares in the market, Corporation announcements or LNG, oil and natural gas prices. There can be no assurance that the market price of the Corporation's shares will be protected from such fluctuations in the future.

Impact of Future Financings on Market Price

In order to finance future operations or acquisition opportunities, the Corporation may raise funds through the issuance of Common Shares or the issuance of debt instruments or securities convertible into Common Shares. The Corporation cannot predict the size of future issuances of Common Shares or the issuance of debt instruments or other securities convertible into Common Shares or the effect, if any, that future issuances and sales of the Corporation's securities will have on the market price of the Common Shares.

Competition

The LNG, oil and natural gas industry is extremely competitive. The Company competes with other companies that have ongoing LNG projects. Competition may affect the Company's ability to land customers, obtain sufficient supply or access to transportation.

Environmental Issues

The LNG, oil and natural gas operations involve natural risks that could cause damage to the environment or other unforeseen conditions that could result in damage to the properties of the Corporation or to properties owned by third parties which could lead to potential liability toward third parties. The industry is subject to extensive environmental local, provincial and federal legislations providing restrictions and prohibitions on the emissions or release of certain substances produced in various activities within this industry. In addition, the legislation requires that land, wells and facility sites that are abandoned be reclaimed to the satisfaction of government authorities at the end of the license validity period.

Compliance with environmental legislation can require significant expenditures, and failure to comply with these laws and regulations may result in the assessment of fines and penalties, orders to remediate property contamination and the issuance of injunctions that could limit or prohibit our operations. All of these could have a material impact on Pieridae. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Pieridae to incur costs to remedy such discharge. It is likely the trend to stricter environmental legislation will continue. Changes in environmental laws and regulations may be enacted which could impose higher environmental standards which may increase the cost of Pieridae's operations, and have a material adverse effect on our business, financial condition, results of operations and cash flows. No assurance can be given that future environmental laws and regulations will not adversely impact Pieridae's ability to develop or operate its properties. Pieridae believes that it is in material compliance with applicable environmental legislation and is committed to continued compliance.

Pieridae believes that it is reasonably likely a trend towards stricter standards in environmental legislation will continue and the Company anticipates making increased expenditures of both a capital and operating nature as a result of increasingly stringent environmental laws. As such, legislation is likely to have a material adverse effect on its business, financial condition, results of operations and cash flows.

Prices, Markets and Marketing of Crude Oil and Natural Gas

The Company's operating results and financial position are very dependent on the prices obtained for the commodities it produces. There have been significant fluctuations in LNG, oil and natural gas prices in recent years. These prices are based on international supply and demand, as well as other factors, such as climate, general economic conditions and conditions in other oil and natural gas producing regions, which are beyond the Company's control. Any change in LNG, oil and natural gas prices could have material adverse effects on the Company's business and financial position.

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of Pieridae. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices will result in a reduction of net production revenue. Oil and natural gas prices have varied greatly over the last two years and are expected to remain volatile in the near future in response to a variety of factors beyond the Corporation's control, including, but not limited to: (i) global energy supply, production and policies, including the ability of OPEC to set and maintain production levels in order to influence prices for oil; (ii) political conditions, instability and hostilities; (iii) global and domestic economic conditions, including currency fluctuations; (iv) the level of consumer demand, including demand for different qualities and types of crude oil and liquids and the availability and pricing of alternative fuel sources; (v) the production and storage levels of North American natural gas and crude oil and the supply and price of imported oil and liquefied natural gas; (vi) weather conditions; (vii) the proximity of reserves and resources to, and capacity of, transportation facilities and the availability of refining and fractionation capacity; (viii) the ability, considering regulation and market demand, to export oil and liquefied natural gas and NGLs from North America; (ix) the effect of world-wide energy conservation and greenhouse gas reduction measures and the price and availability of alternative fuels; and (x) government regulations. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the future volume of Pieridae's oil and gas production. Pieridae might also elect not to produce from certain wells at lower prices. All these factors could result in a material decrease in Pieridae's future net production revenue, causing a reduction in its oil and gas acquisition and development activities.

In addition to establishing markets for its oil and natural gas, Pieridae must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by Pieridae will be affected by numerous factors beyond its control. Pieridae will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by Pieridae. The ability of Pieridae to market natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Pieridae will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and the management of other aspects of the oil and natural gas business. Pieridae has limited direct experience in the marketing of oil and natural gas.

Exploration, Development and Production Risks

The future success of the exploration work will depend on Corporation's ability to discover or acquire natural gas reserves that are economically recoverable. The Corporation will find or acquire reserves only if it conducts successful exploration or development activities, concludes joint ventures and/or acquires properties containing proven reserves. There can be no assurance that the development projects and exploration activities that may be implemented in the future will result in reserves or that the Corporation will succeed in drilling productive wells at low exploration costs. If prevailing LNG, oil and natural gas prices were to increase significantly, the Corporation's exploration costs to find or acquire reserves would be expected to increase. Drilling oil wells involves a high degree of risk especially the risk of a dry hole or of a well that is not sufficiently productive to provide a return on the capital expended to drill the well. Thus, the LNG facility supply and the Corporation's financial situation could be impacted by these factors.

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on exploration by the Corporation will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves and resources. Without the continual addition of new reserves or resources, the Corporation's existing reserves and resources, and the production from them, will decline over time as the Corporation produces from such reserves. A future increase in the Corporation's reserves and resources will depend on both the ability of the Corporation to explore and develop its existing properties and on its ability to select and acquire suitable producing properties or prospects. There is no assurance that the Corporation will be able to continue to find satisfactory properties to acquire or participate in. Moreover, management of the Corporation may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participations uneconomic. There is also no assurance that the Corporation will discover or acquire further commercial quantities of oil and natural gas.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, completing, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering and spills or other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury.

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

As is standard industry practice, the Corporation is not fully insured against all risks, nor are all risks insurable. Although the Corporation maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event the Corporation could incur significant costs. See "Insurable Risks" below.

Insurable risks

Where possible, the Corporation will purchase liability insurance that will insure against risks and provide coverage in accordance with industry standards. The Corporation or the other entities in which the Corporation will invest can suffer damages resulting from incidents such as pollution, fires, blowouts, geological formation damage, oil spills as well as personal injury, against which they may not be insured or they may choose not to be insured in light of high premium costs or other reasons. In addition, indemnities could exceed the policy limits. The costs of repairing such damages or paying such indemnities could cause the ongoing operation of the Corporation's business to become unprofitable and/or impossible.

Operational Dependence

Other companies operate some of the assets in which Pieridae has an interest. As a result, Pieridae will have limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect Pieridae's financial performance. Pieridae's return on assets operated by others will therefore depend upon a number of factors that may be outside of Pieridae's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

In addition, due to the current low and volatile commodity prices, many companies, including companies that may operate some of the assets in which Pieridae has an interest, may be in financial difficulty, which could impact their ability to fund and pursue capital expenditures, carry out their operations in a safe and effective manner and satisfy regulatory requirements with respect to abandonment and reclamation obligations. If companies that operate some of the assets in which Pieridae has an interest fail to satisfy regulatory requirements with respect to abandonment and reclamation obligations, Pieridae may be required to satisfy such obligations and to seek recourse from such companies. To the extent that any of such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in such assets being shut-in, Pieridae potentially becoming subject to additional liabilities relating to such assets and Pieridae having difficulty collecting revenue due from such operators. Any of these factors could materially adversely affect Pieridae's financial and operational results.

Gathering and Processing Facilities and Pipeline Systems

The Corporation delivers its products through gathering, processing and pipeline systems some of which it does not own. The amount of oil and natural gas that the Corporation can produce, and sell is subject to the accessibility, availability, proximity and capacity of these gathering, processing and pipeline systems. The lack of availability of capacity in any of the gathering, processing and pipeline systems, and in particular the processing facilities, could result in the Corporation's inability to realize the full economic potential of its production or in a reduction of the price offered for the Corporation's production. Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market oil and natural gas production. In addition, the pro-rationing of capacity on inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas. Unexpected shut downs or curtailment of capacity of pipelines for maintenance or integrity work because of actions taken by regulators could also affect the Corporation's production, operations and financial results. Furthermore, producers are increasingly turning to rail as an alternative means of transportation. In recent years, the volume of crude oil shipped by rail in North America has increased dramatically. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm the Corporation's business and, in turn, the Corporation's financial condition, results of operations and cash flows.

Following major accidents in Lac-Megantic, Quebec and North Dakota, the Transportation Safety Board of Canada and the U.S. National Transportation Board have recommended additional regulations for railway tank cars carrying crude oil. In June 2015, as a result of these recommendations, the Government of Canada passed the Safe and Accountable Rail Act which increased insurance obligations on the shipment of crude oil by rail and imposed a per tonne levy of $1.65 on crude oil shipped by rail to compensate victims and for environmental cleanup in the event of a railway accident. In addition to this legislation, new regulations have implemented the TC-117 standard for all rail tank cars carrying flammable liquids which formalized the commitment to retrofit, and eventually phase out DOT-111 tank cars carrying crude oil. The increased regulation of rail transportation may reduce the ability of railway lines to alleviate pipeline capacity issues and add additional costs to the transportation of crude oil by rail. On July 13, 2016, the Minister of Transport (Canada) issued Protective Direction No. 38, which directed that the shipping of crude oil on D07- 111 tank cars end by November 1, 2016. Tank cars entering Canada from the United States will be monitored to ensure that they are compliant with Protective Direction No. 38.

A portion of the Corporation's production may, from time to time, be processed through facilities owned by third parties and over which the Corporation does not have control. From time to time these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could materially adversely affect the Corporation's ability to process its production and to deliver the same for sale.

Possible Failure to Realize Anticipated Benefits of Acquisitions

As part of its ongoing strategy, the Corporation may complete acquisitions of assets or other entities in the future. Achieving the benefits of completed and future acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses and entities requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect the Corporation's ability to achieve the anticipated benefits of any acquisitions.

Project Risks

Pieridae manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Pieridae's ability to execute projects and market LNG, oil and natural gas will depend upon numerous factors beyond Pieridae's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Pieridae could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Conflicts of interest

Certain directors of the Company serve on the boards of other companies engaged in natural resource exploration and development operations. Such ties could give rise to conflicts of interest. In making any decisions involving the Company, these directors will satisfy their duties and obligations to deal fairly and in good faith with the Company and the other entities. In addition, these directors will disclose their interest and refrain from voting on any matter that could give rise to a conflict of interest.

Permits, licenses and approvals

The Company's business requires permits and licences from government authorities. There can be no assurance that the Company will obtain all the permits and licences required to continue exploration and development operations. In addition, if the Company commences commercial LNG operations, it must obtain and comply with all the necessary permits and licences. There can be no assurance that the Company will be able to obtain or comply with the requirements of such permits and licences.

Title to property

While the Company has taken reasonable steps to ensure it has good and valid title over its properties, there can be no assurance that title to such properties will not be disputed or challenged. Third parties may have valid claims with respect to the Company's properties.

Litigation

The Company may be held liable for pollution or for other risks for which it cannot be insured, or for risks it may choose not to insure considering high premium costs or other reasons. Payments of amounts in respect thereof may result in the loss of assets of the Company.

Regulatory

The LNG, oil and natural gas industry is subject to controls and regulations established by municipal, provincial and federal governments with respect to prices, royalties, land tenure, production quotas, imports and exports of LNG, oil, natural gas and environmental protection.

Various levels of governments impose extensive controls and regulations on oil and natural gas operations (exploration, production, pricing, marketing and transportation). Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase the Corporation's costs, either of which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

In addition to regulatory requirements pertaining to the production, marketing and sale of oil and natural gas mentioned above, the Corporation's business and financial condition could be influenced by federal legislation affecting, in particular, foreign investment, through legislation such as the Competition Act (Canada) and the Investment Canada Act (Canada).

Royalty Regimes

The royalty program implemented by each province is a significant factor in the profitability of LNG, oil and natural gas production. Royalties payable on output are determined by government regulation; they are calculated as a percentage of the gross value of output and, typically, the rate of royalties payable depends in part on the prescribed benchmark price, well productivity, geographical location, field discovery date and the type or quality of the resource produced.

There can be no assurance that the federal government and the provincial governments of the western provinces will not adopt a new or modify the royalty regime which may have an impact on the economics of the Corporation's projects. An increase in royalties would reduce the Corporation's earnings and could make future capital investments, or the Corporation's operations, less economic.

Hydraulic fracturing

The hydraulic fracturing process gives rise to concerns in communities particularly with respect to the drilling fluids used in the fracturing process and their effects on the aquifer, water use in connection with operations, the capability to recycle such water and the seismic effects associated with the process. A number of Canadian provincial governments are currently reviewing aspects of the scientific, regulatory and political framework in which the hydraulic fracturing operations are carried out. At present, most of these governments are taking part in the collection, review and assessment of technical information regarding the hydraulic fracturing process. Pursuant to the new hydrocarbon legislative framework adopted in December 2016 and in force since September 20, 2018, Quebec legislation requires that wells and facility sites be built, operated, maintained, abandoned and restored to the satisfaction of the applicable regulatory authorities. The new MERN regulations govern how hydraulic fracturing is carried out under the Petroleum Resources Act. The Ministère du Développement Durable, de l'Environnement et aux Changements Climatiques is also reviewing its main law, the Loi sur la Qualité de l'Environnement and some of its related regulations in conjunction with the MERN. In province of Quebec, hydraulic fracturing is now prohibited in the geological formation named Utica shale in the St. Lawrence Lowlands area. Fracturing in any other geological formation is only permitted at a depth greater than 1,000 meters from the surface.

The government of Nova Scotia has banned hydraulic fracturing since November 2014. The government of New Brunswick has also restrictions on hydraulic fracturing.

Although the Corporation has no way of predicting the impact of any potential regulations on its business, the implementation of new laws, regulations, permits or licenses regarding the use or disposal of water, or hydraulic fracturing in general, could increase the Corporation's compliance costs and the operating and exploration costs of its properties, the litigation risk and environmental liability of the Corporation and, in turn, adversely impact the future prospects of the Corporation and its financial position.

Variations in Foreign Exchange Rates

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has seen a material decrease in value against the United States dollar. Any material increases in the value of the Canadian dollar may negatively impacted Pieridae's operating entities production revenues. Any increase in the future Canadian/United States exchange rates could accordingly impact the future value of Pieridae's reserves and resources as determined by independent evaluators.

To the extent that Pieridae engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which Pieridae may contract.

Hedging

From time to time Pieridae may enter into agreements to receive fixed prices on its oil and natural gas production to offset risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Pieridae will not benefit from such increases. Similarly, from time to time Pieridae may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar, however, if the Canadian dollar declines in value compared to the United States dollar, Pieridae will not benefit from its fluctuating exchange rate.

Tax Horizon

It is expected, based upon current legislation, the projections contained in the Reports and various other assumptions that no cash income taxes are to be paid by Pieridae in the near future. A lower level of capital expenditures than those contained in the Reports or should the assumptions used by Pieridae prove to be inaccurate, Pieridae may be required to pay cash income taxes sooner than anticipated, which will reduce cash flow available to Pieridae.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. There can be no assurance that these seasonal factors will not adversely affect the timing and scope of Pieridae's exploration and development activities, which could in turn have a material adverse impact on Pieridae's business, operations and prospects.

Third Party Credit Risk

Pieridae is, or may be exposed to, third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to Pieridae, such failures could have a material adverse effect on Pieridae and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in Pieridae's ongoing capital program, potentially delaying the program and the results of such program until Pieridae finds a suitable alternative partner.

Political, Geo-Political and Social Risk

LNG, oil and natural gas exploration and development activities may be subject to opposition from ecologist, environmentalist, aboriginal and non-governmental groups. Demonstrations or acts of civil disobedience could have an impact on the Corporation's business. There can be no assurance that such activities will not target projects in which the Corporation holds an interest. Similarly, there can be no assurance as to any attitude or behaviour of a political party or a political group (whether municipal, provincial or federal) that could have an impact on the Corporation's business.

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. The United States has withdrawn from the Trans-Pacific Partnership and the NAFTA agreement is expected to be replaced, the imposition of a tax on the importation of goods into the United States, reduction of regulation and taxation in the United States, and introduction of laws to reduce immigration and restrict access into the United States for citizens of certain countries. It is presently unclear exactly what actions the new administration in the United States will implement, and if implemented, how these actions may impact Canada and in particular the oil and gas industry. Any actions taken by the new United States administration may have a negative impact on the Canadian economy and on the businesses, financial conditions, results of operations and the valuation of Canadian oil and natural gas companies, including the Corporation.

In addition to the political disruption in the United States, the citizens of the United Kingdom voted to withdraw from the European Union and the Government of the United Kingdom has started taking steps to implement such withdrawal. Some European countries have also experienced the rise of antiestablishment political parties and public protests held against open-door immigration policies, trade and globalization. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement it could have an adverse effect on the Corporation's ability to market its products internationally, increase costs for goods and services required for third party lessees' operations, reduce their access to skilled labour and as a result, negatively impact the Corporation's business, operations, financial conditions and the market value of the Common Shares.

The marketability and price of oil and natural gas that may be acquired or discovered by Pieridae is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of Pieridae's net production revenue.

In addition, Pieridae's expected oil and natural gas properties, wells and facilities could be subject to a terrorist attack. As the oil and gas industry in Canada is a key supplier of energy to the United States, certain terrorist groups may target Canadian oil and gas properties, wells and facilities in an effort to choke the United States economy. If any of Pieridae's properties, wells or facilities are the subject of terrorist attack it could have a material adverse effect on Pieridae. Pieridae does not have insurance to protect against the risk from terrorism.

Land claims

Some properties may be subject to land claims by First Nations. There can be no assurance that such land claims will not be made against properties in which the Company holds an interest.

Growth management

The Company may be subject to growth risks including limitations and pressure on its internal control systems and measures. The Company's ability to manage growth effectively will require it to continuously implement and improve its operating and financial systems and expand, train and manage its core workforce. The Company's inability to support such growth could have a material adverse impact on its business, operations and prospects.

Reliance on Key Personnel

Pieridae's future success depends in large measure on certain key personnel. The exploration for, and the development and production of, oil and natural gas with respect to its assets requires experienced executive and management personnel and operational employees and contractors with expertise in a wide range of areas butt have a particular expertise in the foothills. There can be no assurance that all of the required employees and contractors with the necessary expertise will be available. Further, the loss of any key personnel may have a material adverse effect on Pieridae's business, financial condition, results of operations and prospects. Pieridae currently does not have any "key man" insurance in place.

Any inability on the part of Pieridae to attract and retain qualified personnel may delay or interrupt the exploration for, and development and production of, oil and natural gas with respect to Pieridae's assets. Sustained delays or interruptions could have a material adverse effect on the financial condition and performance of Pieridae. In addition, rising personnel costs would adversely impact the costs associated with the exploration for, and development and production of, oil and natural gas in respect of Pieridae's assets, which could be significant and material.

Cost of New Technologies

The oil industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before the Corporation. There can be no assurance that the Corporation will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by the Corporation or implemented in the future may become obsolete. In such case, the Corporation's business, financial condition and results of operations could be materially adversely affected. If the Corporation is unable to utilize the most advanced commercially available technology, its business, financial condition and results of operations could be materially adversely affected.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. Pieridae cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on Pieridae's business, financial condition, results of operations and cash flows.

International protocols

Canada has signed international protocols and conventions setting forth certain environment requirements that may adversely affect the Company's business.

Climate change regulations

Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. Current greenhouse gas ("GHG") emissions legislation has not resulted in material compliance costs. However, it is not possible to predict what proposed legislation or regulations will be adopted, and whether such future laws and regulations could result in additional compliance costs or additional operating restrictions.

Adverse impacts to the Company's business, as a result of comprehensive GHG legislation or regulation applied to the Company's businesses, may include, but are not limited to: (i) increased compliance costs; (ii) permitting delays; (iii) substantial costs to generate or purchase emission credits or allowances adding costs to the products the Company produces; and (iv) reduced demand for crude oil and certain refined products. Emission allowances or offset credits may not be available for acquisition or may not be available on an economic basis. Required emission reductions may not be technically or economically feasible to implement, in whole or in part. Failure to meet such emission reduction requirements, or other compliance mechanisms, may have a material adverse effect on the Company's business. This could result in, among other things, fines, permitting delays, penalties and the suspensions of operations.

Beyond existing legal requirements, the extent and magnitude of any adverse impacts of any additional programs or additional regulations cannot be reliably or accurately estimated at this time because specific legislative and regulatory requirements have not been finalized and uncertainty exists with respect to the additional measures being considered and the time frames for compliance. Consequently, no assurances can be given that the effect of future climate change regulations will not be significant to the Corporation.

Internal Controls

Effective internal controls are necessary for Pieridae to provide reliable financial reports and to help prevent fraud. Although Pieridae will undertake a number of procedures in order to help ensure the reliability of its financial reports, including those imposed on it under Canadian securities laws, Pieridae cannot be certain that such measures will ensure that Pieridae will maintain adequate control over financial processes and reporting.

Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm Pieridae's results of operations or cause it to fail to meet its reporting obligations. If Pieridae or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in Pieridae financial statements and harm the trading price of the Common Shares.

Dividends

To date, Pieridae has not paid any dividends on its Common Shares and does not anticipate the payment of any dividends on its Common Shares for the foreseeable future, though it is a possibility that the Corporation may pay dividends in the future if it has started generating sufficient positive cash flow. Any future determination to pay dividends will be at the discretion of the Board and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of dividends and any other factors that the Board deems relevant.

Dilution

Pieridae may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Pieridae which may be dilutive. Common Shares, including rights, warrants, special warrants, subscription receipts and other securities to purchase, to convert into or to exchange into Common Shares, may be created, issued, sold and delivered on such terms and conditions and at such times as the Board of Directors may determine. In addition, the Corporation may issue additional Common Shares from time to time pursuant to the Corporation's stock option plan or restricted share unit plan. The issuance of these Common Shares would result in dilution to holders of Common Shares.

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, the Corporation may disclose confidential information relating to the business, operations or affairs of the Corporation. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put the Corporation at competitive risk and may cause significant damage to its business. The harm to the Corporation's business from a breach of confidentiality cannot presently be quantified but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, the Corporation will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Information Technology Systems and Cyber-Security

The Corporation relies heavily on information technology, such as computer hardware and software systems, in order to properly operate its business. In the event the Corporation is unable to regularly deploy software and hardware, effectively upgrade systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of systems, the operation of such systems could be interrupted or result in the loss, corruption, or release of data, compromise confidential customer or employee information, result in the disruption of business, theft or extortion of funds, regulatory infractions, loss of competitive advantage and reputational damage. In addition, information systems could be damaged or interrupted by natural disasters, force majeure events, telecommunications failures, power loss, acts of war or terrorism, computer viruses, malicious code, physical or electronic security breaches, intentional or inadvertent user misuse or error, or similar events or disruptions. Any of these or other events could cause interruptions, delays, loss of critical and/or sensitive data or similar effects, which could have a material adverse impact on the protection of intellectual property, and confidential and proprietary information, and on the Corporation's business, financial condition, results of operations and cash flows.

In the ordinary course of business, the Corporation collects, uses and stores sensitive data, including intellectual property, proprietary business information and personal information of the Corporation's employees and third parties. Despite the Corporation's security measures, its information systems, technology and infrastructure may be vulnerable to attacks by hackers and/or cyberterrorists or breaches due to employee error, malfeasance or other disruptions. Any such breach could compromise information used or stored on the Corporation's systems and/or networks and, as a result, the information could be accessed, publicly disclosed, lost or stolen.

To date the Corporation has not experienced any material losses relating to cyber-attacks or other information security breaches. However, there can be no assurance that the Corporation will not incur such losses in the future. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties or other negative consequences, including disruption to the Corporation's operations and damage to its reputation, which could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows. Although the Corporation maintains a risk management program, which includes an insurance component that may provide coverage for the operational impacts from an attack to, or breach of, Pieridae's information technology and infrastructure, including process control systems, the Corporation does not maintain stand-alone cyber insurance. Furthermore, not all cyber risks are insurable. As a result, Pieridae's existing insurance may not provide adequate coverage for losses stemming from a cyber-attack to, or breach of, its information technology and infrastructure.

Although to date the Corporation has not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that the Corporation will not incur such losses in the future.

Reputation Risk

The Corporation relies on its reputation to build and maintain positive relationships with stakeholders, to recruit and retain staff, and to be a credible trusted company. Any actions that Pieridae takes that causes a negative public opinion has the potential to negatively impact the Corporation's reputation which may adversely impact its share price, development plans or its ability to continue operations. Although the Corporation maintains a risk management program, which includes an insurance component that may provide coverage for the operational impacts from an attack to, or breach of, Pieridae's information technology and infrastructure, including process control systems, the Corporation does not maintain stand-alone cyber insurance. Furthermore, not all cyber risks are insurable. As a result, Pieridae's existing insurance may not provide adequate coverage for losses stemming from a cyber-attack to, or breach of, its information technology and infrastructure.

Control Environment

The Company's management, including the President and the Chief Financial Officer evaluated the effectiveness of disclosure controls and procedures as at December 31, 2018, and concluded that disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its annual filings and other reports filed with securities regulatory authorities in Canada is recorded, processed, summarized and reported within the time periods specified and such information is accumulated and communicated to the Company's management to allow timely decisions regarding required disclosures.

The Company's management, including the President and the Chief Financial Officer also evaluated the effectiveness of internal control over financial reporting as at December 31, 2018, and concluded that internal control over financial reporting is effective. Further, there were no changes in the Company's internal control over financial reporting during 2018 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

While the Company's management believes that the Company's disclosure controls and procedures and internal control over financial reporting provide a reasonable level of assurance, they are effective, they recognize that all control systems have inherent limitations. Because of its inherent limitations, the Company's control systems may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Outlook and Guidance

Guidance for 2019 average daily production is expected to be in the range of 16,000 – 18,000 boe/d. Production guidance excludes potential acquisitions. Pieridae's 2019 Upstream capital program will focus on necessary maintenance, equipping, tie-in and low cost high-return optimization initiatives at a cost of approximately $8 – 10 million. Depending on funding initiatives, Pieridae would expect to incur up to $45 million in Goldboro development activities.

Non-IFRS Measures

Project expenditures

Project expenditures represent total capital expenditures included in the financial statements plus Goldboro spending (defined below). This information is important as it shows Pieridae's total spending on key long-term initiatives.

Goldboro spending

Goldboro spending reflects all expenditures associated with the Company's proposed LNG facility in Goldboro, Nova Scotia, that are not of a capital nature. These expenditures are included in administration and operating expenses for the LNG segment. This information is important as it shows Pieridae's continued investment in Goldboro prior to these costs being available for capitalization.

Net Working Capital

	As at December 31			
($000s)		2018		2017
Cash and cash equivalents	$	7,651	$	19,619
Cash and cash equivalents held for exploration purposes	$	1,461	$	1,619
Restricted cash	$	8,626	$	-
Accounts receivable	$	16,187	$	1,092
Prepaid expenses	$	2,250	$	122
Trade and other payables	$	(60,922)	$	(2,210)
Current portion of deferred lease inducements	$	(20)	$	(19)
Current portion of term debt	$	(50,007)	$	(7)
Partner advances for planned exploration work	$	(624)	$	(679)
Provision for contingent liability	$	(530)	$	(583)
Current portion of the provision for site restoration	$	-	$	-
Flow-through shares premium	$	(82)	$	(104)
Promissory notes	$	-	$	(25)
Deferred accounts payable	$	(8,051)	$	(7,836)
Net working capital (deficit)	**$**	**(84,061)**	**$**	**10,989**

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, 2018; and
- the effectiveness of the Company's internal control over financial reporting as at December 31, 2018.

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)

Melanie Litoski
Chief Financial Officer

Calgary, Alberta, Canada

April 24, 2019

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, 2018 and 2017, and the consolidated statements of (loss) income and comprehensive (loss) income, 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, 2018 and 2017, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $34.9 million during the year ended December 31, 2018. As of that date, the Company's current liabilities exceeded its current assets by $84.1 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 Ann-Marie Brockett.

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada

April 24, 2019

Consolidated Financial Statements

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)		As at December 31, 2018	2017
Assets			
Current			
Cash and cash equivalents	(Note 15)	**$ 7,651**	$ 19,619
Cash and cash equivalents held for exploration purposes	(Note 15)	**1,461**	1,619
Restricted cash	(Note 15)	**8,626**	-
Accounts receivable	(Note 19)	**16,187**	1,092
Prepaid expenses and deposits		**2,250**	122
		36,175	22,452
Restricted cash equivalents	(Note 15)	**1,000**	630
Security deposits		**600**	600
Interests in associates	(Note 16)	**3,722**	3,734
Property, plant and equipment	(Notes 7 & 10)	**301,603**	3,802
Exploration and evaluation assets	(Note 9)	**27,573**	42,827
		$ 370,673	$ 74,045
Liabilities			
Current			
Accounts payable and accrued liaibilities		**$ 60,922**	$ 2,210
Current portion of deferred lease inducements		**20**	19
Current portion of term debt	(Note 17)	**50,007**	7
Partner advances for planned exploration work		**624**	679
Promissory notes		**-**	25
Provision for contingent liability	(Note 22)	**530**	583
Liability related to flow-through shares		**82**	104
Deferred accounts payable	(Note 23)	**8,051**	7,836
		120,236	11,463
Partners' share in security deposits		**294**	294
Deferred lease inducements		**159**	179
Term debt		**-**	7
Provision for site restoration	(Note 12)	**158,236**	2,740
		278,925	14,683
Share capital	(Note 13)	**193,270**	128,804
Contributed surplus		**8,960**	6,715
Other comprehensive income		**1,240**	1,583
Warrants		**933**	-
Retained earnings (deficit)		**(112,503)**	(77,633)
Equity attributable to equity holders of the company		**91,900**	59,469
Non-controlling interests		**(152)**	(107)
Total shareholders' equity		**91,748**	59,362
		$ 370,673	$ 74,045

Commitments and contingencies (Note 24)

Subsequent events (Note 25)

Approved on behalf of the Board of Directors:

(signed) Charles Boulanger

Chair, Audit Committee

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

In thousands of Canadian dollars (except share and per share amounts)		Year ended December 31, 2018	2017
Revenues			
Petroleum and natural gas (net of royalties)		$ **2,321**	-
Project management		**331**	90
Other income		**78**	-
		2,730	90
Expenses			
Operating expenses		**9,144**	1,549
Administrative expenses		**7,499**	898
Transportation		**206**	-
Impairment of exploration and evaluation assets	(Note 9)	**16,985**	-
Share-based compensation	(Note 14)	**3,164**	3,615
Loss (gain) on foreign exchange		**4**	-
Depletion and depreciation	(Note 10)	**700**	20
Financial (income) and expenses	(Note 11)	**(48)**	3,175
Share of net loss of associates	(Note 16)	**12**	120
		37,666	9,377
Net loss before taxes		**(34,936)**	(9,287)
Deferred income tax recovery	(Note 18)	**(21)**	(363)
Net income (loss) for the period		**(34,915)**	(8,924)
Other comprehensive income (loss), net of income tax			
Foreign currency translation gain (loss)		**(343)**	296
Total comprehensive income (loss) for the period		$ **(35,258)**	$ (8,628)
Net income (loss) attributable to			
Equity holders of the Company		**(34,870)**	(8,825)
Non-controlling interests		**(45)**	(99)
Net income (loss) per share attributable to equity holders of the Company			
Basic and diluted	(Note 21)	$ **(0.68)**	$ (0.24)
Weighted average number of common shares			
Basic	(Note 21)	**51,274,159**	37,312,304
Diluted		**51,274,159**	37,312,304

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, 2016	(Note 13)	**$ 44,668**	**$ -**	**$ 5,896**	**$ (68,808)**	**$ 1,287**	**$ (16,957)**	**$ (88)**	**$ (17,045)**
Share-based compensation		218	-	3,341	-	-	3,559	-	3,559
Common shares issued on stock option exercise		2,724	-	(2,424)	-	-	300	-	300
Common shares issued on private placement		25,652	-	-	-	-	25,652	-	25,652
Share issue costs related to private placement		(1,043)	-	-	-	-	(1,043)	-	(1,043)
Conversion of convertible loan to common shares		6,239	-	-	-	-	6,239	-	6,239
Balance as at October 24, 2017		78,458	-	6,813	(68,808)	1,287	17,750	(88)	17,662
Shares exchanged on reverse takeover		(78,458)	-	-	-	-	(78,458)	-	(78,458)
Existing shares of Pieridae Energy prior to reverse takeover		78,458	-	-	-	-	78,458	-	78,458
Shares issued to shareholders of Petrolia Inc. on reverse takeover		51,251	-	-	-	-	51,251	-	51,251
Transaction costs		(1,395)	-	-	-	-	(1,395)	-	(1,395)
Share-based compensation		-	-	56	-	-	56	-	56
Common shares issued on stock option exercise		490	-	(154)	-	-	336	-	336
Non-controlling interest		-	-	-	-	-	-	80	80
Total comprehensive loss for the year		-	-	-	(8,823)	296	(8,527)	(99)	(8,626)
As at December 31, 2017	(Note 13)	**$ 128,804**	**$ -**	**$ 6,715**	**$ (77,631)**	**$ 1,583**	**$ 59,471**	**$ (107)**	**$ 59,364**
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 corporate acquisition	(Note 7)	56,114	489	-	-	-	56,603	-	56,603
Non-controlling interest		-	-	-	-	-	-	(45)	(45)
Total comprehensive income (loss) for the year		-	-	-	(34,872)	(343)	(35,215)	-	(35,215)
As at December 31, 2018	(Note 13)	**$ 193,270**	**$ 933**	**$ 8,960**	**$ (112,503)**	**$ 1,240**	**$ 91,900**	**$ (152)**	**$ 91,748**

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)		Year ended December 31, **2018**	2017
Operating activities			
Net income (loss)		**$ (34,915)**	$ (8,924)
Depletion and depreciation	(Note 10)	**700**	5
Deferred tax expense (recovery)	(Note 18)	**(21)**	(363)
Share-based compensation	(Note 14)	**3,164**	3,615
Amortization of deferred lease inducements		**(10)**	(2)
Impairment of exploration and evaluation assets	(Note 9)	**16,985**	-
Accretion		**53**	398
Share of net loss of associates		**12**	120
Provision for contingent liabilities		**(53)**	-
Flow-through share penalties		**(55)**	(117)
Loss on conversion right		**-**	2,257
Foreign exchange (gain) loss		**4**	(157)
Changes in non-cash working capital	(Note 20)	**5,729**	(7,071)
Cash provided by operating activities		**(8,407)**	(10,239)
Investing activities			
Additions to property, plant and equipment	(Note 10)	**(503)**	(9)
Additions to exploration and evaluation assets	(Note 20)	**(478)**	(183)
Business acquisition, net cash received		**6,154**	12,610
Cash used in investing activities		**5,173**	12,418
Financing activities			
Issuance of share capital, net of costs	(Note 13)	**8,163**	23,930
Restricted cash	(Note 15)	**(1,000)**	68
Increase (decrease) in term debt	(Note 17)	**50,000**	-
Repayment of term debt	(Note 7)	**(65,897)**	(3,201)
Issuance (repayment) of promissory notes		**(25)**	(2,028)
Cash provided by financing activities		**(8,759)**	18,769
(Decrease) increase in cash and cash equivalents		**(11,993)**	20,948
Cash and cash equivalents, beginning of period		**21,238**	197
Effect of foreign exchange on cash		**(133)**	93
Cash and cash equivalents, end of period		**$ 9,112**	$ 21,238
Cash paid:			
Interest		**$ 543**	$ 1,005
Income taxes		**-**	-

Notes to the Consolidated Financial Statements

1. Corporate Information

Pieridae Energy Limited (the "Company" or "Pieridae"), is a publicly traded, Canadian based Company 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.

NON-CONTROLLING INTEREST

During 2014, the Company, Pieridae Energy (Canada) Ltd. and Uniper Global Commodities S.E. ("Uniper") entered into an agreement, whereby Uniper acquired a one percent ownership interest in Goldboro LNG LP and Pieridae Energy (Canada) Ltd. As at December 31, 2018, the ownership interest of Uniper was 0.8%.

2. Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"). The significant accounting policies set forth below were consistently applied to all periods presented.

The consolidated financial statements were approved by the Board of Directors of Pieridae on April 24, 2019.

The consolidated financial statements have been prepared on a going concern basis using the historical cost convention, which contemplates the realization of assets and settlements of liabilities in the normal course of operations for the foreseeable future. During the year ended December 31, 2018, consistent with the developmental stage of the organization, the Company generated a net loss of $34.9 million and negative cash flow from operations (excluding acquisitions) of $8.4 million. The Company's current liabilities also exceed its current assets by $84.1 million. These conditions indicate the existence of material uncertainties that may cast significant doubt about Pieridae's ability to continue as a going concern. The Company expects to incur further losses in the development of its business and will require additional debt and equity financing to fund future development of its LNG project and associated natural gas assets. While the company has been successful in raising financing in the past, there can be no assurance that it will be able to do so in the future. These consolidated financial statements do not reflect adjustments in the carrying value of assets and liabilities, revenue or expenses, nor the statement of financial position classification that would be necessary if the going concern assumption was not valid. Such adjustments could be material.

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

3. CRITICAL ACCOUNTING JUDGMENTS 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.

IDENTIFICATION OF IMPAIRMENT INDICATORS

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

EXPLORATION AND EVALUATION

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.

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.

DECOMMISSIONING OBLIGATION

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of 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 and liability-specific discount rates to determine present value of these cash flows.

SHARE-BASED COMPENSATION

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.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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.

4. CHANGES IN ACCOUNTING POLICIES

The Company has applied the following new and revised accounting pronouncements in preparing the December 31, 2018 consolidated financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IFRS-9 FINANCIAL INSTRUMENTS

As of January 1, 2018, the Company has adopted IFRS-9 Financial Instruments, which is the result of the first phase of the IASB project to replace IAS-39 Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. The classification of financial assets under IFRS 9 is generally based on the business model for managing the financial assets and the financial asset's contractual cash flow characteristics. IFRS-9 eliminates the previous IFRS-39 categories of held to maturity, loans and receivables and available for sale. The new standard introduces changes to hedge accounting requirements in order to align accounting with an entity's risk management activities.

The transition to IFRS-9 had no material effect on the Company's consolidated financial statements. Cash and cash equivalents, accounts receivables, accounts payables, bank debt continue to be measured at amortized cost and are now classified as amortized cost.

Financial Instrument	IAS 39 Classification	IFRS 9 Classification
Cash and cash equivalents	Fair value through profit or loss	Amortized cost
Trade and other receivables	Amortized cost	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Term debt	Amortized cost	Amortized cost

IFRS-15 REVENUE FROM CONTRACTS WITH CUSTOMERS

As of January 1, 2018, the Company has adopted IFRS-15 Revenue from Contracts with Customers. The standard replaces IAS-11 Construction Contracts; IAS-18 Revenue, IFRIC-13 Customer Loyalty Programmes, IFRIC-15 Agreements for the Construction of Real Estate, IFRIC-18 Transfers of Assets from Customers and SIC-31 Revenue-Barter Transactions Involving Advertising Services. The standard dictates the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue resulting from an entity's contracts with customers. The Company adopted IFRS-15 via the modified retrospective adoption approach effective January 1, 2018. Pieridae has reviewed its revenue streams and underlying contracts with customers using the IFRS 15 five-step model, which did not result in any changes to the comparative period or the opening deficit.

REVENUE RECOGNITION POLICY

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 3rd parties 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.

5. SIGNIFICANT ACCOUNTING POLICIES

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments held with a financial institution, with an original maturity of three months or less.

CONSOLIDATION

The 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 included in the Company's accounts include Ikkuma Resources Corp., Pieridae Energy (Canada) Ltd., Petrolia Anticosti Inc. and Goldboro LNG Limited Partnership. Intercompany balances and transactions are eliminated in preparation of the consolidated financial statements.

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.

EXPLORATION AND EVALUATION ASSETS

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

Exploration and evaluation 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 Statements of Financial Position. Exploration and evaluation assets are reviewed for impairment prior to any such transfer. Assets classified as exploration and evaluation are not subject to depletion and depreciation until they are classified to property, plant and equipment.

Exploration and evaluation 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 cash generating units ("CGU's").

PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement

Property, plant and equipment 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 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.

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 percent per year.

Foreign 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.

IMPAIRMENT

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

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 using a pre-tax discount rate 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.

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.

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.

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.

A portion of share-based compensation expense directly attributable to the exploration and development of the Company's assets are capitalized.

FINANCE EXPENSES

Finance expenses comprise service charges, interest expense on term debt and accretion on 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.

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.

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.

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.

FINANCIAL INSTRUMENTS

IFRS 9 contains three principal classification categories for initial classification of financial assets: measured at amortized cost; fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). Financial assets are categorized based on the Company's objective for the asset and the contractual cash flows. A financial asset is classified as amortized cost if the asset is held with the objective to collect contractual cash flows that are solely payments of principal and interest on principal amounts outstanding. A financial asset is classified as FVOCI if the asset is held with the objective to both collect contractual cash flows and sell the financial asset. All other financial assets are measured at FVTPL. Financial assets are assessed for impairment using an expected credit loss model. Trade and other receivables are classified and measured at amortized cost.

The measurement categories for each class of financial asset and financial liability is set forth in the following table.

Financial Instrument	Classification
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Trade and other payables	Amortized cost
Term debt	Amortized cost

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. 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. Debt issuance costs related to the restructuring of credit facilities are capitalized and amortized as financing costs over the term of the credit facilities.

6. FUTURE ACCOUNTING POLICIES

As of January 1, 2019, the Company will adopt IFRS-16 Leases. IFRS 16 replaces IAS 17 - "Leases". IFRS 16 eliminates the distinction between operating leases and financing leases for lessees and requires balance sheet recognition for all leases. For lessees applying IFRS 16, a single recognition and measurement model for leases will apply, with the recognition of right-of-use ("ROU") assets and lease liabilities for most leases. All contracts that meet the definition of a lease under IFRS 16, including those presently accounted for as operating leases, will be recorded on the balance sheet. Certain short-term (less than 12 months), and low-value leases (as defined in the standard) are exempt from the requirements and may continue to be treated as an expense. Leases to explore for or use crude oil, natural gas, minerals and similar non-regenerative resources are exempt from the standard.

The standard may be applied retrospectively or using a modified retrospective approach. The Company has elected to use the modified retrospective approach which does not require restatement of prior period financial information. On initial adoption, Pieridae will elect to use the following practical expedients permitted under the standard:

- Certain short-term leases, and leases of low value assets that have been identified at January 1, 2019, will not be recognized on the balance sheet.
- At January 1, 2019, Pieridae will not recognize leases with terms ending within 12 months.

On adoption of IFRS 16, the Company will recognize lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as at January 1, 2019. The associated ROU assets will be measured at the amount equal to the lease liability on January 1, 2019, with no impact on retained earnings.

The Company’s leases that will be recognized on its balance sheet at January 1, 2019 include office leases, equipment leases and vehicle leases.

The impact on the statement of income (loss) and comprehensive income (loss) will be as follows:

- Lower administrative expenses and operating costs.
- Higher finance expenses due to the interest recognized on the lease obligations; and
- Higher depreciation expense related to the ROU assets.

Under the new standard, the Company will report cash outflows for repayment of the principal portion of the lease liability as cash flows from financing activities. The interest portion of the lease payments will be classified as cash flows from operating activities.

The Company continues to finalize its evaluation of its contracts that are potentially leases under IFRS 16, as well as implementing changes to policies, internal controls, information systems, and business accounting processes.

7. BUSINESS COMBINATION

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.

8. Segmented financial information

Pieridae's reportable segments are determined based on the nature of the underlying operations. By virtue of the Company's acquisition of Ikkuma discussed in Note 7, the Company is now engaged in upstream petroleum and natural gas development, as well as its LNG development project. The breakdown of the respective lines of business is as follows:

- Upstream is represented predominantly by the properties acquired from Ikkuma (Note 7). However, it also includes the Company's upstream operations in Quebec and New Brunswick. Segmented determinations are based on the operations of the separate subsidiaries involved in these activities. Upstream is currently the only segment generating operating revenues.

- LNG is based on the operations of a single subsidiary engaged in activities associated with the development of the Company's proposed Liquified Natural Gas facility in Goldboro Nova, Scotia.

Segmented Information

(In thousands of Canadian dollars)	Upstream 2018	Upstream 2017	LNG 2018	LNG 2017	Consolidated 2018	Consolidated 2017
Revenue						
Petroleum and natural gas (net of royalties)	**$ 2,321**	-	**-**	-	**$ 2,321**	-
Project management	**331**	90	**-**	-	**331**	90
Other income	**78**	-	**-**	-	**78**	-
	2,730	90	**-**	-	**2,730**	90
Expenses						
Operating expenses	**3,054**	72	**6,090**	1,477	**9,144**	1,549
Administrative expenses	**6,198**	-	**1,301**	898	**7,499**	898
Transportation	**206**	-	**-**	-	**206**	-
Impairment of exploration and evaluation assets	**16,985**	-	**-**	-	**16,985**	-
Share-based compensation	**-**	-	**3,164**	3,615	**3,164**	3,615
Loss (gain) on foreign exchange	**-**	-	**4**	-	**4**	-
Depletion and depreciation	**700**	19	**-**	1	**700**	20
Financial (income) and expenses	**139**	-	**(187)**	3,175	**(48)**	3,175
Share of net loss of associates	**-**	-	**12**	120	**12**	120
	27,282	91	**10,384**	9,286	**37,666**	9,377
Income (loss) before income tax	**(24,552)**	(1)	**(10,384)**	(9,286)	**(34,936)**	(9,287)
Deferred tax (recovery)	**-**	-	**(21)**	(363)	**(21)**	(363)
Net income (loss)	**$ (24,552)**	$ (1)	**$ (10,363)**	$ (8,923)	**$ (34,915)**	$ (8,924)

As at	**December 31, 2018**	**December 31, 2017**
Upstream assets	**$ 357,287**	$ 44,057
LNG assets	**13,386**	29,988
Total consolidated assets	**$ 370,673**	$ 74,045

9. EXPLORATION AND EVALUATION

At December 31, 2016	$ -
Business acquisition	42,616
Additions	211
At December 31, 2017	42,827
Additions	1,731
Impairment	(16,985)
At December 31, 2018	**$ 27,573**

Exploration and evaluation ("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.

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 have a number of impacts for Pieridae. Most significantly these new regulations prohibit any hydrocarbon exploration or exploitation activities within 1,000 meters of an urban area. Pieridae management reviewed all of its permits in the province to determine the impact of the new regulations on its oil and gas properties. Management concluded that indicators of impairment had resulted from the new legislation, and that an impairment adjustment was required.

Management also used the impairment assessment as an opportunity to evaluate all of its properties in Quebec, with the objective of consolidating its holdings in properties deemed to hold the most potential for exploratory and economic success. This exercise resulted in the Company relinquishing a number of licenses, or its pro-rata share of certain licenses. Collectively this exercise resulted in the Company, recognizing impairment of $17.0 million during the third quarter of 2018.

10. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

Historical Cost		
At December 31, 2016	$	3,389
Additions		9
Business acquisition		452
At December 31, 2017	$	3,850
Additions		503
Business acquisition (Note 7)		297,998
At December 31, 2018	**$**	**302,351**

Accumulated Depletion & Depreciation		
At December 31, 2016	$	28
Depreciation		20
At December 31, 2017	$	48
Depletion and depreciation		700
At December 31, 2018	**$**	**748**

Net Book Value		
At December 31, 2017	$	3,802
At December 31, 2018	**$**	**301,603**

DEPLETION

At December 31, 2018, future development costs of Pieridae's proved plus probable reserves of $59.3 million were included in the depletion calculations. Residual value of $31.8 million was excluded from the depletion calculations.

At December 31, 2018 it was determined that no impairment indicators existed on the Company's petroleum and natural gas reserves and therefore no impairment tests were performed.

11. FINANCIAL INCOME AND EXPENSES

	Year Ended December 31, 2018	Year Ended December 31, 2017
Finance (Income) Expense		
Interest expense	**$ 304**	$ 844
Interest income	**(405)**	(71)
Accretion	**53**	398
Loss on conversion right	**-**	2,257
Other	**-**	(253)
Total financial (income) expense	**$ (48)**	**$ 3,175**

Accretion expense represents accretion on the Company's decommissioning obligations.

12. DECOMMISSIONING OBLIGATIONS

	Year Ended December 31, 2018	Year Ended December 31, 2017
Decommissioning obligations, beginning of year	$ 2,740	$ -
Obligations acquired (Note 7)	154,972	2,740
Change in estimated future cash outflows	1,731	-
Obligations settled	(1,260)	-
Accretion	53	-
Decommissioning obligations, end of year	**$ 158,236**	$ 2,740

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 $223.0 million. As at December 31, 2018, risk-free rates of 1.88% (<5 years), 1.9% (5-10 years) (2017: 2.50%) and 2.18% (>10 years) and an inflation rate of 2.0% (2017: 2.00%) were used to calculate the fair value of the decommissioning obligations.

13. 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, 2018 and December 31, 2017 there were no preferred shares outstanding.

ISSUED AND OUTSTANDING COMMON SHARES

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Common Shares		**Amount**	Common Shares		Amount
Balance beginning of the year	**50,481,197**	**$**	**128,804**	15,599,158	$	44,668
Shares issued on stock option exercise	**52,446**		**143**	300,000		2,724
Shares issued in private placement	**2,358,824**		**8,020**	2,052,130		25,652
Shares on corporate acquisition (Note 7)	**21,582,401**		**56,114**			
Share-based compensation	**41,726**		**189**	24,166		218
Conversion of convertible loan	**-**		**-**	499,120		6,239
Share issue costs	**-**		**-**	-		(1,043)
	74,516,594		**193,270**	18,474,574		78,458
Shares exchanged on reverse takeover	**-**		**-**	(18,474,574)		(78,458)
New shares issued on reserve takeover	**-**		**-**	49,794,069		129,709
Transaction costs	**-**		**-**	-		(1,395)
Shares issued on stock option exercise	**-**		**-**	687,128		490
Balance end of the year	**74,516,594**	**$**	**193,270**	50,481,197	$	128,804

In December 2018 the Company completed a non-brokered private placement of 2,358,824 shares at $3.40 per share. In December the Company also issued 21,582,401 shares to close the Ikkuma transaction (Note 7).

PER SHARE AMOUNTS

Per share amounts have been calculated on the weighted average number of shares outstanding. The weighted average shares outstanding for the year ended December 31, 2018 was 51,274,159 (year ended December 31, 2017 - 37,312,304).

The diluted loss per share calculations for the year ended December 31, 2018 and 2017 were not affected by either the outstanding stock options or warrants as they are anti-dilutive.

14. SHARE-BASED COMPENSATION

Pursuant to the Stock Option Plan, 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 10% of the issued and outstanding common shares of the Company on a non-diluted basis 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. As per the new Stock Option Plan adopted on October 24, 2017 with the reverse takeover, options granted to directors vest immediately and for other participants, over a period of three year (previously at the discretion of the Board of Directors). All share-based compensation will be settled in equity.

	Year Ended December 31, 2018	
	Weighted Average Exercise Price	Options
As at December 31, 2016	$ 1.18	3,584,344
Granted on business combination	6.31	641,020
Exercised	0.47	(1,348,854)
Forfeited	10.96	(1,041,125)
As at December 31, 2017	$ 4.92	1,835,385
Granted	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**

The following table summarizes stock options outstanding and exercisable at December 31, 2018:

	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)
0.01 - 0.45	44,115	$ 0.01	2.44	33,086	$ 0.01	2.44
1.98 - 4.08	1,086,148	$ 3.86	2.45	767,604	$ 3.84	2.43
5.67 - 8.04	1,523,131	$ 5.71	3.58	817,211	$ 5.73	3.21
	2,653,394	**$ 4.85**	**3.10**	**1,617,902**	**$ 4.72**	**3.62**

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

	Year Ended December 31, 2018	Year Ended December 31, 2017[(1)]
Assumptions		
Risk free interest rate (%)	**1.98**	-
Option life (years)	**3.75**	-
Volatility (%)	**69.0**	-
Weighted average fair value of each stock option granted	**$ 2.69**	**$ -**

[(1)] No stock options were granted for the year ended December 31, 2017.

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

	Year Ended December 31, 2018	Year Ended December 31, 2017
Share-based compensation	**$ 3,393**	$ 3,635
Capitalized costs	**(229)**	(20)
Total share-based compensation expense	**$ 3,164**	**$ 3,615**

15. CASH AND CASH EQUIVALENTS

	Year Ended December 31, 2018	Year Ended December 31, 2017
Cash	**$ 18,738**	$ 21,868
Less: restricted cash[1]	**8,626**	-
Less: restricted cash equivalents[1]	**1,000**	630
	9,112	21,238
Less: cash and cash equivalents held for exploration purposes		
Flow-through shares[2]	**736**	940
Bourque project[3]	**725**	679
Total cash and cash equivalents	**$ 7,651**	$ 19,619

1 As at December 31, 2018, $8.6 million is pledged as security for 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, 2019. The remaining $1.0 million tranche matures in April of 2020.

2 Cash and cash equivalents held for exploration purposes related to flow-through shares represent the unexpended proceeds of a flow-through share financing. According to restrictions imposed under the financing arrangement, the Company must spend these funds on the exploration of oil and gas properties.

3 Cash and cash equivalents on the Bourque project represent the remaining cash from partner advances which must be spent on exploration work related to the Bourque project.

16. INTEREST 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, 2018, the Company's ownership interest is 20%. Under the terms of the Partnership agreement, the Company is entitled to contribute an additional $14.125 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, 2016	$ 3,854
Share in net loss of associates	(120)
Value at December 31, 2017	$ 3,734
Share in net loss of associates	(12)
Value at December 31, 2018	**$ 3,722**

As at December 31, 2018, the associates have no contingent liabilities or capital commitments. However, under the terms of the partnership operating agreement there is an annual fee of $60,000 to be paid by Pieridae Production LP to the operator.

Summarized financial statement information of the Partnership is disclosed below:

		Year Ended December 31, 2018		Year Ended December 31, 2017
Current assets	**$**	**137**	$	134
Non-current assets		**20,145**		20,145
Current liabilities	**$**	**(2,010)**	$	(1,947)

		Year Ended December 31, 2018		Year Ended December 31, 2017
Net loss for the period	**$**	**(60)**	$	(600)

17. TERM DEBT

On December 20, 2018, the Company entered into a Senior Secured Credit Agreement for a $50 million non-revolving, term credit facility. The facility is secured by a fixed and floating debenture over all the assets of the Company. It bears interest at 9.5 percent, which is accrued and payable upon maturity. The facility is repayable on September 30, 2019. The Company used the proceeds to partially fund the repayment of Ikkuma's outstanding debt facilities of $65.7 million on the close of the acquisition detailed in (Note 7). Upon granting the credit facility, the lender received 1,300,050 warrants. Each warrant entitles them to purchase one common share of Pieridae for $3.76 at any time prior to their expiry on May 25, 2020.

18. DEFERRED TAX

The provision for income tax 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, 2018		December 31, 2017
Loss before taxes	**$**	**(34,936)**	$	(9,287)
Combined federal and provincial income tax rate		**26.94%**		30.8 %
Computed income tax benefit		**(9,412)**		(2,860)
Tax effects of				
Non-deductible share-based compensation		**721**		1,107
Accretion		**14**		123
Change in contingent liability		**(15)**		(36)
Foreign exchange loss (gain)		**1**		(168)
Loss on conversion right		**-**		460
Change in unrecognized deferred tax assets		**6,382**		867
Change in tax rates		**2,288**		144
Deferred tax expense (recovery)	**$**	**(21)**	$	(363)

The components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2018	December 31, 2017
Deferred tax assets		
Non-capital losses	**$ -**	(4,351)
Deferred tax liabilities		
Exploration and evaluation assets	**$ -**	$ 4,336
Property, plant and equipment	**-**	15
Deferred tax, net	**$ -**	$ -

The Company has roughly $213 million in non-capital losses that will expire between 2026 and 2038.

Unrecognized deferred income tax assets:

	December 31, 2018	December 31, 2017
Non-capital losses	**$ 58,325**	$ 18,401
Capital losses	**256**	292
Issuance costs	**974**	836
Exploration and evaluation assets	**906**	-
Property, plant and equipment	**(41,590)**	-
Asset retirement obligation	**41,842**	-
Unrecognized deferred tax assets	**$ 60,713**	$ 19,529

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial assets and liabilities are comprised of cash, accounts receivable, accounts payable and accrued 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 31,2018		December 31,2017	
Financial Assets at Amortized Cost	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Accounts receivable	**16,187**	**16,187**	1,092	1,092
Financial Liabilities at Amortized Cost				
Accounts payable and accrued liabilities	**60,922**	**60,922**	2,210	2,210
Term debt	**50,007**	**50,007**	14	14
Total	**110,929**	**110,929**	2,224	2,224

The Company's financial assets and liabilities expose it to various risks. The following analysis provides an assessment of those risks as at December 31, 2018.

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, 2018 and 2017, the Corporation's accounts receivables consisted of:

	December 31, 2018	December 31, 2017
Petroleum and natural gas marketers	**$ 9,832**	$ -
Receivables from partners in jointly owned assets	**4,069**	885
Other (primarily government receivables)	**2,286**	207
Total accounts receivable	**$ 16,187**	$ 1,092

As at December 31, 2018 and 2017, the Corporation's accounts receivables are aged as follows:

	December 31, 2018	December 31, 2017
Current (less than 90 days)	**$ 14,954**	$ 1,092
Past due (more than 90 days)	**1,233**	-
	$ 16,187	$ 1,092

The Corporation has assessed the past due receivables and determined that no provision is required as at December 31, 2018 (December 31, 2017: Nil).

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 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 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 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. To date, the Company has funded its share of commitments from existing cash balances, equity raises and its debt facility.

The Company will require significant additional financing to support operations, to advance expansion of its upstream operations and to ultimately fund the construction of its proposed 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. 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 timing of cash outflows relating to financial liabilities as at December 31, 2018 is outlined in the table below:

	Total	Less than 1 year	1-3 years	3-5 years	Beyond 5 years
Accounts payable	$ 60,922	$ 60,922	$ -	$ -	$ -
Term debt	50,007	50,007	-	-	-
Deferred accounts payable	8,051	8,051	-	-	-
Partners' share in security deposits	294	-	-	-	294
Total	**$ 119,274**	**$ 118,980**	**$ -**	**$ -**	**$ 294**

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.

INTEREST RATE RISK

The Company is potentially exposed to fair value risk through increases in interest rates. While central banks have taken pause on rate increases of late, there is no guarantee that that situation will persist. Any rate increases will have an impact on any debt financing negotiated by Pieridae as it looks to raise capital to fund its Goldboro LNG project.

CURRENCY RISK

The Company is also exposed to fluctuations in foreign exchange rates as certain accounts payable and accrued liabilities and commitments are denominated in US dollar, UK pound sterling and Euro. These risks will be materially enhanced if the Company secures debt financing denominated in any currency other than Canadian dollars. If the Canadian dollar was to change by five percent against the various currency exposures, the impact to the foreign exchange gain or loss would have been approximately $390,000 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.

PRICE RISK

Now that the Company is has upstream natural gas assets, it is directly subject to fluctuations in commodity prices. Fluctuations in commodity prices, specifically the prices for natural gas and LNG, will have a significant impact on the Company's cash flows and its final investment decision for the LNG project. A continuation of the challenging natural gas price environment in Western Canada will make it difficult for Pieridae to become cashflow positive.This depressed environment will also have a significant impact on the Company's ability to attract the necessary investment to ultimately construct the LNG project. As the Company advances toward a final investment decision for the LNG project and pursues the required financing it will evaluate a number of options to potentially manage this risk.

ENVIRONMENTAL RISK

LNG, oil and natural gas operations involve risks that could cause damage to the environment, or other unforeseen conditions, that could result in damage to the properties of the Company or to properties owned by third parties. This could lead to potential liability toward third parties. The industry is subject to extensive environmental legislation providing restrictions and prohibitions on the emissions or release of certain substances produced in various activities within the industry. In addition, the legislation requires that land, wells and facility sites that are abandoned be reclaimed to the satisfaction of government authorities at the end of the licence validity period.

REGULATORY RISK

The LNG, oil and natural gas industry is subject to controls and regulations established by municipal, provincial and federal governments with respect to prices, royalties, land tenure, production quotas, imports and exports of LNG, oil, natural gas and environmental protection.

Legislation involving all of these issues is under constant scrutiny and calls for change. Consequently, it is extremely challenging to plan with certainty regarding the impact that these control measures, regulations and their amendments will have on the Company's operations. The industry is subject to environmental regulations pursuant to a variety of provincial and federal legislation. This legislation provides restrictions and prohibitions on the emission or release of various substances produced or used in association with certain production activities within the industry, and which affect the costs and location of wells and facilities and the extent to which activities are authorized. In addition, the legislation requires land, wells and facility sites that are abandoned to be reclaimed to the satisfaction of provincial authorities. Any breach of such legislation may result in the imposition of fines and penalties, suspension or revocation of necessary licences, permits and authorizations to operate a business and enforcement of civil liabilities for pollution damages.

The royalty program implemented by each province is also a significant factor in the profitability of LNG, oil and natural gas production. Royalties payable on output are determined by government regulation. They are calculated as a percentage of the gross value of output and, typically, the rate of royalties payable depends in part on the prescribed benchmark price, well productivity, geographical location, field discovery date and the type or quality of the resource produced.

BUSINESS RISKS AND UNCERTAINTIES

The Company is subject to a number of business risks. These outlined in greater detail in our 2018 MD&A and the Annual Information Form for the year ended December 31, 2018.

20. SUPPLEMENTAL INFORMATION

PRESENTATION IN CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	December 31, 2018	December 31, 2017
Changes in non-cash working capital		
Accounts receivable	**$ 287**	$ (154)
Prepaid expenses and deposits	**(55)**	(28)
Accounts payable and accrued liabilities	**5,497**	(6,889)
	$ 5,729	$ (7,071)
Changes relating to:		
Operating activities	**$ 5,729**	$ (7,071)
Investing activities	**-**	-
	$ 5,729	$ (7,071)
Cash interest paid	**$ 543**	**$ 1,005**

Increase in exploration and evaluation costs, net of recoveries

	Year Ended December 31, 2018	Year Ended December 31, 2017
Additions to exploration and evaluation costs, net of recoveries (Note 9)	**$ 1,731**	$ -
Stock-based compensation	**(229)**	-
Change in provision for site restoration	**(1,034)**	-
Amortization of deferred lease inducements	**10**	-
Net increase in exploration and evaluation costs	**$ 478**	$ -

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, 2018	December 31, 2017
Short-term employee benefits:		
Salaries and employee benefits	**$ 1,309**	$ 520
Director's fees	**239**	35
Total short-term employee benefits	**1,548**	555
Share-based compensation	**1,869**	450
Fees	**52**	63
Total compensation	**$ 3,469**	**$ 1,068**

21. PER SHARE AMOUNTS

The calculation of basic earnings per share for the year ended December 31, 2018 was based on a net loss of $34.9 million (2017: net loss of $8.9 million).

	December 31, 2018	December 31, 2017
Basic common shares outstanding	**74,516,594**	50,481,197
Options outstanding	**2,653,394**	1,835,395
Warrants outstanding (1)	**1,889,755**	343,747
Fully diluted common shares outstanding	**79,059,743**	52,660,339
Weighted average shares outstanding	**51,274,159**	37,312,304
Dilutive effect of options and warrants (2)	**-**	-
Diluted weighted average shares outstanding	**51,274,159**	**37,312,304**
Net income (loss) per share – basic and diluted	**$ (0.68)**	$ (0.24)

(1) There are 1,179,410 2018 one half of of one common share purchase warrants outstanding, with each whole warrant enntitling 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, 2018, aa total of 2,653,394 options and (2017: 1,835,395) and 1,889,755 warrants (2017: 343,747) were excluded from the calculation as they were anti-dlituve.

22. PROVISION FOR CONTINGENT LIABILITY

	Year Ended December 31, 2018	Year Ended December 31, 2017
Balance, beginning of period	**$ 583**	$ -
Change in provision	**(53)**	(117)
Business combination	**-**	700
Balance, end of period	**$ 530**	**$ 583**

Most of the Company's contingent liabilities arose as a result of a flow-through share financing and reflect spending obligations that were required to be made prior to December 31, 2017. The Company requires certain approvals from the Quebec government in order to fulfill these obligations. Due to the moratorium on exploration and development activities in Quebec, the Company was not permitted to fulfill these obligations prior to December 31, 2018.

23. DEFERRED ACCOUNTS PAYABLE

Deferred accounts payable reflects the amount due to a third-party engineering and construction company. Payment of this amount is contingent upon Pieridae proceeding with the construction of its LNG facility. If the project does not proceed, and at any time Pieridae cancels or abandons the project, the Company has no obligation to pay the remaining amount. If the Company proceeds with the project and awards the construction contract to this third party, the amount will be included in the fee structure of the construction contract, and paid over time. If the Company proceeds with the project but awards the construction contract to another third party, the amount will become due thirty days thereafter. The variation of the deferred accounts payable relates to foreign exchange gain or loss.

24. COMMITMENTS

	2019	2020	2021	2022	Thereafter	Total
Leases	$ 537	$ 217	$ 125	$ 126	$ 706	$ 1,711
Quebec License fees	241	241	241	-	-	723
Interest on debt	3,562	-	-	-	-	3,562
Firm transportation	6,913	4,174	1,591	1,228	3,730	17,636
Total	**$ 11,253**	**$ 4,632**	**$ 1,957**	**$ 1,354**	**$ 4,436**	**$ 23,632**

25. SUBSEQUENT EVENTS

On February 4, 2019, the Company announced that the Nova Scotia Mi'kmaq Benefits Agreement which it negotiated with the Assembly of Nova Scotia Mi'kmaq Chiefs had been ratified. This 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 Project. A Memorandum of Understanding signed in 2013 originally outlined the relationship between Pieridae and the Mi'kmaq in Nova Scotia.

On February 12, 2019, the Company announced its plan for a private placement of the Company's common shares at a price of $2.00 per share. After giving effect to both the brokered and non-brokered tranches of the private placement, the Company issued 9,550,000 commons shares for gross proceeds of $19.1 million.

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 study for its proposed Goldboro LNG Facility. KBR will also conduct an open book estimate necessary for entering into a lumpsum engineering, procurement and construction contract.

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