CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **Pieridae Energy Limited:**

We have audited the accompanying consolidated financial statements of Pieridae Energy Limited, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of loss and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pieridae Energy Limited as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada
March 15, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[Expressed in thousands Canadian dollars]

	As at December 31, 2017	As at December 31, 2016
	$	$
ASSETS		
Current		
Cash and cash equivalents *[note 6]*	**19 619**	197
Cash and cash equivalents held for exploration purposes *[note 6]*	**1 619**	—
Restricted cash *[note 6]*	**—**	68
Receivables *[note 7]*	**1 092**	114
Prepaid expenses	**122**	5
Conversion right *[note 17]*	**—**	2 429
Total current assets	**22 452**	2 813
Non-current		
Restricted cash equivalents *[note 6]*	**630**	—
Security deposits *[note 15]*	**600**	—
Interests in associates *[note 8]*	**3 734**	3 854
Property, plant and equipment *[note 9]*	**3 802**	3 361
Exploration and evaluation assets *[note 10]*	**42 827**	—
Total non-current assets	**51 593**	7 215
	74 045	10 028
LIABILITIES AND EQUITY		
Current		
Trade and other payables *[note 11]*	**2 210**	15 447
Current portion of deferred lease inducements	**19**	—
Current portion of bank borrowings *[note 12]*	**7**	3 200
Partner advances for planned exploration work *[note 13]*	**679**	—
Provision for contingent liability *[note 29]*	**583**	—
Current portion of the provision for site restoration *[note 15]*	**610**	—
Liability related to flow-through shares *[note 14]*	**104**	—
Promissory notes *[note 16]*	**25**	2 129
Convertible loan *[note 17]*	**—**	6 297
Deferred accounts payable *[note 18]*	**7 836**	—
Total current liabilities	**12 073**	27 073
Non-current		
Partners' share in security deposits *[note 15]*	**294**	—
Deferred lease inducements	**179**	—
Bank borrowings *[note 12]*	**7**	—
Provision for site restoration *[note 15]*	**2 130**	—
Total non-current liabilities	**2 610**	—
Total liabilities	**14 683**	27 073
Equity		
Share capital *[note 20]*	**128 804**	44 668
Contributed surplus	**6 715**	5 896
Retained earnings (deficit)	**(77 633)**	(68 808)
Accumulated other comprenhensive income	**1 583**	1 287
Equity (deficiency) attributable to equity holders of the Company	**59 469**	(16 957)
Non-controlling interests *[note 21]*	**(107)**	(88)
Total shareholders' equity (deficiency)	**59 362**	(17 045)
	74 045	10 028

Contingencies *[note 29]*

See accompanying notes

On behalf of the Board of Directors,

(signed) Myron Tétreault

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[Expressed in thousands Canadian dollars]

For the years ended December 31

	2017	2016
	$	$
Revenues		
Project management	**90**	—
	90	—
Expenses		
Administrative expenses	**1 063**	1 350
Operating expenses	**5 019**	12 860
Financial income and expenses	**3 175**	(247)
Share of net loss of associates *[note 8]*	**120**	125
	9 377	14 088
Loss before taxes	**(9 287)**	(14 088)
Current income tax expense (recovery)	**—**	**—**
Deferred income tax expense (recovery)	**(363)**	**—**
	(363)	—
Net loss for the year	**(8 924)**	(14 088)
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Exchange differences on translation of foreign operations	**(296)**	(162)
Net comprehensive loss for the year	**(8 628)**	(13 926)
Attributable to		
Entity holders of the Company	**(8 825)**	(14 002)
Non-controlling interets *[note 21]*	**(99)**	(86)
Basic and diluted net loss *[note 24]*	**(0.237)**	(0.900)

See accompanying notes

PIERIDAE ENERGY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

[Expressed in thousands Canadian dollars]

	Common shares	Share capital	Warrants	Contributed surplus	Deficit	Foreign currency translation reserve	Total equity	Non-Controlling interests	Total equity
	#	$	$	$	$	$	$	$	$
Balance as at January 1, 2016	15 523 602	43 918	—	2 396	(54 806)	1 125	(7 367)	(53)	(7 420)
Share issuances *[note 20]*	20 000	250	500	—	—	—	750	—	750
Conversion of warrants *[note 20]*	55 556	500	(500)	—	—	—	—	—	—
Share-based compensation *[note 20]*	—	—	—	2 154	—	—	2 154	—	2 154
Convertible loan extension *[note 17]*	—	—	—	1 346	—	—	1 346	—	1 346
Non-controlling interest *[note 21]*	—	—	—	—	—	—	—	51	51
Net comprehensive loss	—	—	—	—	(14 002)	162	(13 840)	(86)	(13 926)
Balance as at December 31, 2016	**15 599 158**	**44 668**	**—**	**5 896**	**(68 808)**	**1 287**	**(16 957)**	**(88)**	**(17 045)**
Share-based compensation *[note 20]*	24 166	218	—	3 341	—	—	3 559	—	3 559
Share issued on stock option exercise	300 000	2 724	—	(2 424)	—	—	300	—	300
Share issuance *[note 20]*	2 052 130	25 652	—	—	—	—	25 652	—	25 652
Issuance costs *[note 20]*	—	(1 043)	—	—	—	—	(1 043)	—	(1 043)
Conversion of Convertible loan	499 120	6 239	—		—	—	6 239	—	6 239
Balance as at October 24, 2017	18 474 574	78 458	—	6 813	(68 808)	1 287	17 750	(88)	17 662
Shares exchanged on reverse takeover	(18 474 574)	(78 458)	—	—	—	—	(78 458)	—	(78 458)
Existing shares of Pieridae Energy prior to reverse takeover	40 750 343	78 458	—	—	—	—	78 458	—	78 458
Shares issued to shareholders of Petrolia Inc. on reverse takeover *[note 5]*	9 043 726	51 251	—	—	—	—	51 251	—	51 251
Issuance costs	—	(1 395)	—	—	—	—	(1 395)	—	(1 395)
Share-based compensation *[note 20]*	—	—	—	56	—	—	56	—	56
Share issued on stock option exercise	687 128	490	—	(154)	—	—	336	—	336
Non-controlling interests	—	—	—	—	—	—	—	80	80
Net loss and comprehensive loss	—	—		—	(8 825)	296	(8 529)	(99)	(8 628)
Balance as at December 31, 2017	**50 481 197**	**128 804**	**—**	**6 715**	**(77 633)**	**1 583**	**59 469**	**(107)**	**59 362**

See accompanying notes

PIERIDAE ENERGY

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in thousands Canadian dollars]

For the years ended December 31,

	2017	2016
	$	$
OPERATING ACTIVITIES		
Net loss	**(8 924)**	(14 088)
Items not affecting cash:		
Depreciation of property, plant and equipment	**5**	7
Deferred tax recovery	**(363)**	—
Share-based compensation	**3 615**	2 154
Amortization of deferred lease inducements	**(2)**	—
Accretion of convertible loan *[note 17]*	**398**	552
Share of net loss of associates *[note 8]*	**120**	125
Flow-through shares penalties *[note 29]*	**(117)**	—
Loss (gain) on conversion right *[note 17]*	**2 257**	(659)
Foreign exchange gain	**(157)**	(1 123)
	(3 168)	**(13 032)**
Net change in non-cash operating items		
Receivables	**(154)**	759
Prepaid expenses	**(28)**	(5)
Trade and other payables	**(6 889)**	3 961
	(7 071)	4 715
Cash flows related to operating activities	**(10 239)**	(8 317)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(9)**	—
Acquisitions of oil and gas properties, net of recovered amounts	**(2)**	—
Increase in exploration and evaluation costs, net of recovered amounts	**(181)**	—
Reverse takeover, net cash received *[note 5]*	**12 610**	—
Cash flows related to investing activities	**12 418**	—
FINANCING ACTIVITIES		
Issuance of share capital, net of costs *[note 20]*	**23 930**	250
Issuance of warrant *[note 20]*	**—**	500
Increase in restricted cash and cash equivalent *[note 6]*	**68**	39
Repayment of bank borrowings *[note 12]*	**(3 201)**	—
Issuance of promissory note *[note 16]*	**125**	2 215
Repayment of promissory note *[note 16]*	**(2 153)**	—
Cash flows related to financing activities	**18 769**	3 004
Net decrease in cash and cash equivalents	**20 948**	(5 313)
Cash and cash equivalents, beginning of period	**197**	4 499
Net foreign exchange difference	**93**	1 011
Cash and cash equivalents, end of period *[note 30]*	**21 238**	197

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

1. INCORPORATION, NATURE OF OPERATIONS AND APPROVAL

Incorporation and nature of business

Pieridae Energy Limited [the "Company" or "Pieridae"], was incorporated on May 29, 2012 under the laws of Canada to invest in the development of a fully integrated liquefied natural gas ["LNG"] project to be built in Goldboro, Nova Scotia. The Company is headquartered at 1600-333 7th Avenue SW, Calgary, Alberta, T2P 2Z1.

Approval date

These consolidated financial statements were approved by the Board of Directors and authorized for issue on March 15, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in preparing these consolidated financial statements are summarized below:

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and set out in the *CPA Canada Handbook*.

The consolidated financial statements have been prepared on a historical cost basis, except for cash and cash equivalents that have been measured at fair value. The Company has elected to present its consolidated statement of income (loss) by function.

2.2 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates [the "functional currency"]. The functional currency and presentation currency of the Company is the Canadian dollar.

2.3 Principles of consolidation

These consolidated financial statements include the accounts of the Company and the subsidiaries that it controls. The Company controls an entity when it has the power to direct the relevant activities and the ability to use its power to affect the amount of its returns. Subsidiaries are fully consolidated from the date the Company acquires control and are deconsolidated on the date control ends. Intercompany transactions and balances and unrealized gains and losses on transactions between these entities are eliminated. When there is a party with a non-controlling interest in a subsidiary that the Company controls, that non-controlling interest is reflected as “non-controlling interest”.

These consolidated financial statements include the financial statements of the Company and the following subsidiaries as at December 31, 2017:

Subsidiary	Location	Interest (as a %)
Pieridae Energy (Canada) Ltd.	Canada	99
Goldboro LNG Limited Partnership	Canada	99
9290834 Canada Ltd	Canada	99
Pieridae Energy (USA) Ltd.	Canada	100
Atlantic Offshore Production Ltd.	Canada	100
Pieridae Offshore Development Limited Partnership	Canada	100
Pieridae Production GP Ltd.	Canada	50
Pieridae Production Limited Partnership	Canada	20
Pétrolia Anticosti Inc.	Canada	100

2.4 Revenue recognition

Purchases and sales of investments are recognized on the transaction date. Interest income is earned with the passage of time and is recorded on an accrual basis. Revenue from project management is recognized as projects are realized. Other income is recognized when the services are provided.

2.5 Financial instruments

The Company categorizes its financial instruments by class based on their nature and characteristics. Management determines the classification on initial recognition, which is normally the date of the transaction.

All revenues and expenses associated with financial instruments are presented in financial income and expenses.

For the years ended December 31, 2017 and 2016

[a] Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss when acquired principally for the purpose of selling in the near term, such as held-for-trading financial assets, or if so designated by management. The instruments in this category comprise cash, cash equivalents, restricted cash equivalents and conversion right.

Financial instruments included in this category are initially and subsequently measured at fair value. Directly attributable transaction costs and changes in fair value are recognized in the consolidated statements of income (loss). Instruments in this category are presented in current assets.

[b] Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The instruments in this category include accounts receivable excluding commodity taxes and tax credits receivable

Financial instruments included in this category are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

At the end of each reporting period, the Company determines whether there is objective evidence of an impairment loss on a financial asset as a result of one or more events that occurred after the initial recognition of the financial asset affecting the asset's estimated future cash flows. Impairment losses are recognized under financial expenses in the consolidated statements of income (loss) and comprehensive income (loss).

[c] Other financial liabilities

Financial instruments in this category are initially measured at fair value, net of transaction costs. Other finanical liabilities are subsequently measured at amortized cost. Any difference between the initial carrying amount of other financial liabilities and their redemption value is recognized through net income (loss) over the contractual term using the effective interest method. They are presented in current liabilities when they are payable within 12 months of the end of the period; otherwise, they are classified as non-current liabilities. Financing costs are amortized over the term of the financing using the effective interest method. This category includes trade and other payables, partners' share in security deposits, bank borrowings, promissory notes, Goldboro land mortgage and convertible loan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

2.6 Basic and diluted net earnings (loss) per share

Basic net earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted net earnings (loss) per share is determined by adjusting the net income (loss) attributable to common shareholders of the Company and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. Dilutive potential common shares are to be deemed to have been converted into common shares at the beginning of the period or, if later, the date of the issue of the potential common shares.

For the purpose of calculating diluted net earnings (loss) per share, the exercise of dilutive options and warrants of the entity is to be assumed.

2.7 Cash and cash equivalents

The Company's cash and cash equivalents consist of cash and short-term investments with maturities of three months or less from the date of acquisition or highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.8 Restricted cash

Restricted cash comprises of cash held at a bank that is restricted in use to pay the associated interest on the Company's debt referenced in note 6

2.9 Inventories

Inventories consisting of drilling and fracturing equipment and drilling products are measured at the lower of cost, determined using the average cost method, and net realizable value, which represents replacement cost.

2.10 Property, plant and equipment

Property, plant and equipment are recorded at historical cost less any accumulated depreciation and accumulated impairment losses. Historical cost includes all costs directly attributable to the acquisition. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Property, plant and equipment are depreciated over their expected useful lives using the following methods and period or annual rates:

	Method	Rate and period
Leasehold improvements	Straight-line	Lease term
IT, office and field equipment	Declining balance and straight line	20%, 30% and 5 year
Automotive equipment	Declining balance	30%
Reserves	Declining balance	20%
Field offices	Declining balance	20%

Estimates of residual values, useful lives and depreciation methods are reviewed at each fiscal year-end, taking into account the nature of the assets, intended use and technology developments. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation expense for each period is recognized in income (loss), except for certain items of property, plant and equipment related to exploration activities whose depreciation expense is included in the carrying amount of an exploration asset when such items are used in specific exploration projects. Depreciation of an asset ceases when the asset is classified as held for sale or when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected from their use or disposal.

The gain or loss arising from the disposal of an item of property, plant and equipment is the difference between the disposal proceeds and the net carrying amount of the asset and is recognized in net income (loss) and presented separately in administrative expenses, unless the depreciation of an item of property, plant and equipment was capitalized in exploration and evaluation asset expenses, in which case the gain or loss is recognized as an increase or a decrease in the exploration and evaluation asset.

2.11 Exploration and evaluation assets

Exploration and evaluation assets include costs of acquiring oil and gas rights and the expenses related to the exploration and evaluation of oil and gas properties. These assets are recognized as intangible assets and carried at cost less any impairment losses, government assistance and partner contributions.

Costs incurred before the legal rights are acquired to undertake exploration and evaluation activities are recognized through net income (loss) when they are incurred. All costs of acquiring oil and gas rights and the expenses related to exploration and evaluation activities are capitalized on the basis of each property and project pending determination of the technical feasibility and commercial viability of extracting an oil or gas resource. No amortization is recognized during the exploration and evaluation phase. In particular, capitalized costs include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling, activities related to the evaluation of the technical feasibility and the commercial viability of extracting an oil resource, and share-based payments related to exploration and evaluation assets.

Whenever a project is considered no longer viable or is abandoned, the capitalized amount is written down to its recoverable amount and the difference is then immediately recognized in net income (loss).

When the technical feasibility and commercial viability of extracting a resource are demonstrable, the exploration and evaluation assets related to the oil property are transferred to *Oil and gas assets under construction*. Before the transfer, exploration and evaluation assets are tested for impairment, and any impairment loss is recognized through net income (loss) before reclassification.

Once exploration and evaluation assets are transferred to *Oil and gas assets under construction*, all subsequent costs related to construction, installation and completion of equipment and facilities are capitalized in *Oil and gas assets under construction*. Once the development phase is complete, all assets included in *Oil and gas assets under construction* are transferred to *Oil and gas assets* and depreciated over their useful lives. To date, the Company has not demonstrated any commercial viability of extracting oil and gas resources from its oil and gas properties.

2.12 Joint arrangements

A joint arrangement is defined as an arrangement in which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement.

The Company has entered into joint arrangements for the Bourque, Haldimand and Tar Point No. 1 projects and the Matapédia property as described in note 9. The Company is designated as

operator under operating contracts entered into with its partners. Accordingly, the Company incurs exploration expenses relating to each project or property and recognizes them on a gross basis in the consolidated financial statements. The exploration expenses are re-invoiced by the Company to its partners based on their respective ownership percentages in the exploration licences and partnership agreements, and partner contributions are recorded as a reduction of exploration expenses.

The amounts received from partners for the Bourque project before the work is carried out are reported under *Partner advances for planned exploration work* in the consolidated statement of financial position and partner contributions are recorded as a reduction of exploration expenses for the Bourque project when exploration expenses are incurred.

When interests are disposed of, the cash considerations received from the acquirer are credited against the carrying amount of the expenses previously capitalized, and any surplus is recognized as a gain on the disposal of exploration and evaluation assets in net income (loss).

2.13 Government assistance

Resource-related tax credits and subsidies for exploration expenses are recorded as a reduction of exploration expenses.

In the event of any differences between the amounts of government assistance claimed by the Company and the amounts granted by the tax authorities, the resulting gain or loss is recognized in the fiscal year in which the differences are determined.

2.14. Interest in associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Company’s investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company’s share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statements of comprehensive loss reflects the Company’s share of the results of operations of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. The aggregate of the Company’s share of profit or loss of an associate is presented in the consolidated statements of comprehensive loss and represents profit or loss after tax and non-controlling interests in the

subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss in the consolidated statements of comprehensive loss. Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

2.15 Impairment of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units]. Consequently, some assets, including the interests in associates, are tested for impairment individually while exploration and evaluation assets and property, plant and equipment are tested at the cash-generating unit level. Management assesses the impairment indicators of exploration and evaluation assets for each property or project that constitutes a cash-generating unit. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, if the technical feasibility and commercial viability of extracting an oil or natural gas resource is demonstrable, the exploration and evaluation assets related to the corresponding oil and gas property must be tested for impairment before being transferred to *Oil and gas assets*.

The interests in associates is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows from the interest that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognized. Objective evidence that the interests in associates are impaired includes observable data that comes to the attention of the Company about the following loss events:

(a) It becoming probable that the associates will enter bankruptcy or other financial reorganization;

(b) Observable data indicating that there is a measurable decrease in the estimated future cash flows from associates since the initial recognition of those interests, including national or local economic conditions that correlate with defaults on the assets of the associate such as declining crude oil or natural gas prices or adverse changes in industry conditions affecting the associates;

(c) Associates' significant financial difficulties;

(d) A contractual breach by associates.

In addition to the types of events in the paragraph above, objective evidence of impairment for the interests in the associates includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associates operate, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

Regarding the exploration and evaluation assets, management determines for each asset whether the facts and circumstances could indicate an impairment loss. Such facts and circumstances include, but are not limited to, the following:

(a) The period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
(b) Substantive expenditures on further exploration for and evaluation of oil and gas resources in the specific area are neither budgeted nor planned;
(c) Exploration for and evaluation of oil and gas resources in the specific area have not led to the discovery of commercially viable quantities of oil and gas resources, and the Company has decided to discontinue such activities in the specific area;
(d) Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognized for the amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use. To determine value in use, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows.

An impairment loss is recognized immediately in the statement of comprehensive income (loss) and is used to reduce the individual asset or allocated pro-rata to the assets of the cash-generating unit. All assets are subsequently reassessed to determine whether there is any indication that previously recognized impairment losses may no longer exist. An impairment loss is reversed if the recoverable amount of an asset or cash-generating unit exceeds its carrying value but must not exceed the carrying value that would have been determined, net of depreciation, if no impairment had been recorded.

2.16 Provision for site restoration

A provision for environmental restoration is recognized when:

(i) The Company has a present legal or constructive obligation as a result of past events;
(ii) It is more likely than not that an outflow of resources will be required to settle the obligation; and
(iii) The amount can be reliably estimated.

The estimated value of a future obligation associated with the provision for site restoration related to oil and gas properties is recognized as a liability in the period in which it is incurred, with a corresponding amount capitalized to exploration and evaluation assets and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated cost to abandon and reclaim a site in relation to its net ownership interest in the wells and facilities, including the estimated schedule of costs that will be incurred for that purpose in future periods. This estimate is periodically reviewed and changes are recorded prospectively as an increase or decrease in the provision for site restoration and the underlying exploration and evaluation asset. Changes in the net present value of the future liability associated with site restoration are accounted for as an accretion expense on a time-proportionate basis and recognized in income (loss) for the year. Actual costs incurred upon settlement of the liability are charged to the liability up to the amount of the liability recognized.

2.17 Operating leases

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized as an expense on a straight-line basis over the lease term. Related costs, such as those relating to maintenance and insurance, are recognized as expenses as they are incurred.

Lease inducements obtained on signing a lease are recognized as a liability and amortized over the lease term.

2.18 Taxes

The Company follows the deferred tax asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the carrying amount and tax basis of assets and liabilities. Any change in the net amount of deferred income tax assets and liabilities is recognized in net income (loss), except for the income tax related to items included in equity, in which case it is recognized in equity.

Deferred tax assets and liabilities are measured using substantively enacted and enacted tax rates and laws expected to apply to taxable income in the years in which the differences are expected to be recovered or settled. Deferred income tax assets are recognized when it is probable that they will be realized. Deferred income tax assets and liabilities are not discounted.

Under tax legislation for flow-through investments, the Company is required to renounce deductions for exploration and evaluation expenses in favour of investors. When the Company incurs eligible expenses and renounces tax deductions, the renounced tax deductions are recognized in income (loss) as an increase in deferred tax and a deferred tax liability is recognized for the temporary difference between the carrying value of the eligible expenses capitalized as assets and its tax basis.

Current tax assets or liabilities are obligations or claims for current or prior periods to be paid to or recovered from tax authorities that are still outstanding at the end of the reporting period. Current tax is payable on taxable profit, which differs from net income (loss). It is calculated using tax rates and laws enacted at the end of the reporting period.

2.19 Equity

Share capital

Share capital is recorded at the subscribed value of the shares issued. Costs related to the issuance of shares, warrants or stock options are recognized in equity, net of taxes, as a deduction of the issuance proceeds in the year of transaction.

Issuance of flow-through shares

The Company finances the cost of some exploration and evaluation assets through the issuance of flow-through shares. The issuance of flow-through shares is accounted for as a compound financial instrument. The liability component represents the obligation to transfer tax deductions to investors. Proceeds from the issuance of shares by flow-through investments are allocated to flow-through shares issued and a liability using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual amount is allocated to the liability, which is reversed through income (loss) under deferred tax recovery when the eligible expenses are incurred.

Retained earnings

Retained earnings include all current and prior period retained profits and losses.

2.20 Share-based compensation

The Company has an equity-settled, share-based compensation plan for eligible directors, employees and consultants. The plan does not include a cash-settlement option. The Company occasionally issues broker warrants.

All goods and services received in exchange for share-based compensation awards are measured at fair value. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. The same method is used for transactions with consultants who receive share-based payments and provide services whose fair value cannot be reliably determined. The fair value is measured at the date of grant.

Share-based payments, except broker warrants, are ultimately expensed in income (loss) or capitalized as exploration and evaluation assets, depending on the nature of the payment, with a corresponding credit to contributed surplus within equity. Share-based payments to brokers, in connection with equity financing, are recognized as costs related to the issuance of equity instruments, with a corresponding credit to contributed surplus within equity.

Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value.

If vesting periods apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense in prior periods if share options ultimately exercised are different from that estimated on vesting.

When a share option or broker warrant is exercised, the proceeds received net of any directly attributable transaction costs are recorded in share capital. The accumulated expenses related to the share options and broker warrants recorded in contributed surplus are transferred to share capital.

2.21 Segmented information

Segmented information is reported in accordance with IFRS 8, *Operating Segments*, which requires the Company to present and disclose segmented information in accordance with the information that is regularly reviewed by the chief operating decision-makers, namely the President and the Board of Directors, to assess the Company's performance.

The Company operates within one segment being its Canadian operating segment.

3. CHANGES IN ACCOUNTING POLICIES

3.1 Standards adopted during the current year

As at January 1, 2017, the Company adopted the following standards:

IAS 7, *Statement of cash flow*

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows. The amendments were intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. Adoption of this amendment had no impact on the Company's consolidated financial statements.

3.2 Future changes in accounting policies

The standards issued by the IASB that were not applicable as at the date of issue of the Company's consolidated financial statements are described below.

The Company will adopt those standards in forthcoming fiscal years.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which constitutes a single standard for the recognition of revenue from all contracts with customers, except for insurance contracts, lease contracts, financial instruments and certain non-monetary exchanges. This new standard sets out a single, five-step model for recognizing revenues. In July 2015, the IASB issued a decision to defer the effective date of this new standard from January 1, 2017 to January 1, 2018. The Company is currently assessing the impact of this standard on its consolidated

financial statements, which impact will be limited so long as the Company is in the development and exploration stage.

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued IFRS 9, *Financial Instruments*, which makes the following changes to the recognition of financial instruments:

- The classification and measurement approach for financial assets must reflect the business model with which they are managed and their cash flow characteristics;
- Impairment is to be based on the expected credit loss model;
- Hedge accounting must take into account the entity's risk management practices.

The Company is currently assessing the impact of this standard, which is to be applied retrospectively, and its changes on its consolidated financial statements.

IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*. This standard provides a single model under which most leases will be recognized in the statement of financial position.

Certain exemptions will apply for short-term leases and leases of low-value assets. IFRS 16 will be effective for fiscal years beginning on or after January 1, 2019. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

When preparing the consolidated financial statements, Management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, revenues and expenses. Actual results may differ from the estimates, assumptions and judgments made by Management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most impact on the recognition and measurement of assets, liabilities, revenues and expenses are discussed below.

4.1 Judgments

Going concern assumption

When preparing the consolidated financial statements, management is required to make an assessment of the Company's ability to continue as a going concern. When management is aware, in making this assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, the Company shall disclose those uncertainties. In assessing whether the going concern assumption is appropriate, management took into account all available information about the future, which is at least, but not limited to, twelve months from the end of the statement of financial position.

Management has concluded that there are no materials uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for the next twelve months. Judgement was involved in that assessment.

The Company expects to incur further losses in the development of its business and will require additional debt and equity financing to fund future phases in the development of its LNG project and associated natural gas assets.

The Company's ability to continue as a going concern hinges on its ability to obtain the necessary financing to pursue its project development, including existing and expected funding commitments from third parties. Refer to *note 27 "Financial instruments"* and the section within entitled "Liquidity and funding risk" for a detailed description of the requirements for additional debt and equity financing.

Impairment of exploration and evaluation assets

Judgment is required to assess when impairment indicators exist. Management determines for each asset, whether the facts and circumstances could indicate an impairment loss or reversal. This assessment requires significant Management judgment given the current background of declining crude oil and natural gas prices which reduces the Company's ability to obtain the necessary financing to complete future development and future profitable production or to dispose the properties for proceeds exceeding their carrying amount. Given the uncertainty related to the economic viability of its oil and gas properties, Management's analysis is based primarily on qualitative factors *[note 2.15]*. In particular, the Company considered fluctuations in oil prices, its financing capacity for completing its exploration projects, the exploration budgets adopted by the Company's Board of Directors and its partners, the Company's commitments to carry out exploration work under the issuance of flow-through shares in accordance with timelines, fluctuations in the Company's stock price and its capacity to obtain the required licences.

Management has determined that no impairment indicator requires impairment testing for the exploration and evaluation assets.

5. BUSINESS COMBINATION – REVERSE TAKEOVER

On October 24, 2017, after the approval of shareholders and as per the Canada Business Corporations Act., the amalgamation between the Company and Petrolia Inc., which was incorporated and a reporting issuer in Quebec, was entered into by way of a plan of arrangement (the Arrangement) to form the amalgamated company named Pieridae Energy Limited.

In accordance with IFRS 3, "Business Combinations" the transaction is a reverse takeover of an operating company, Petrolia Inc. management has determined that the definition of a business under the standard has been met. The resulting financial statements are presented as a continuance of Pieridae Energy Limited (accounting acquirer), and comparative figures presented in the financial statements are those of Pieridae Energy Limited. The results of Petrolia's operations have been included in the Company's financial statements from the closing date of October 24, 2017 and going forward.

Pursuant to the Arrangement, the common shares in the capital of Pétrolia (the "Pétrolia Shares") were consolidated (the "Consolidation") on the basis of one (1) post-Consolidation Pétrolia Share for each twelve (12) Pétrolia Shares held by a Pétrolia shareholder (a "Pétrolia Shareholder") (subject to rounding). Pieridae will issue to the holders ("Former Pieridae Shareholders") of common shares in the capital of Former Pieridae ("Former Pieridae Shares") 2.2057526 common shares in the capital of Pieridae ("Pieridae Shares") for each one (1) Former Pieridae Share held by a Former Pieridae Shareholder (subject to rounding), for aggregate consideration of 40,750,343 Pieridae Shares issuable to Former Pieridae Shareholders in exchange for the 18,474,574 Former Pieridae Shares which were outstanding at the effective time of the Arrangement. Similarly, at the effective time of the Arrangement, Pieridae issued to the Pétrolia Shareholders one (1) Pieridae Share for each one (1) Pétrolia Share held by a Pétrolia Shareholder in exchange for the 9,043,726 Pétrolia Shares (on a post-Consolidation basis) which were outstanding at the effective time of the Arrangement. Each Pieridae Share issuable to Former Pieridae Shareholders or to Pétrolia Shareholders pursuant to the Arrangement were issued at a deemed price of $5.667 per Pieridae Share (on a post-Consolidation basis). After giving effect to the Arrangement, there will be approximately 49,794,063 Pieridae Shares issued and outstanding (calculated on a non-diluted basis).

The fair value of the consideration paid, calculated as $51,250,795, is determined based on the percentage of ownership of the amalgamated entity that was transferred to Petrolia Shareholder upon the completion of the Arrangement. This value represents the fair value of the number of shares that the Company would have had to issue for the ratio of ownership interest in the amalgamated entity to be the same as if the Arrangement had taken legal form of Pieridae acquiring 100% of the shares of Pétrolia Shares.

The following table describes management's determination of purchase price allocation over the fair value of Petrolia Inc.'s net assets acquired upon completion of the reverse takeover on October 24, 2017.

(in thousands Canadian dollars)

Consideration	
Share issued	**$51,251**
Allocation	
Cash and cash equivalent	$9,606
Cash and cash equivalent for exploration	3,004
Restricted cash and cash equivalent	630
Working capital (deficiency)	(434)
Security deposit	600
Property, plant and equipment	452
Exploration and evaluation assets	42,616
Partner advances for planned exploration work	(806)
Partners' share in security deposits	(294)
Provision for contingent liabilities	(700)
Liability related to flow-through shares	(104)
Partner's share in security deposit	(15)
Deferred lease inducements	(201)
Provision for site restoration	(2,740)
Deferred tax liabilities	(363)
	51,251

Additionally, as a result of the Arrangement: (i) 343,747 share purchase warrants of Pétrolia (on a post-Consolidation basis) were replaced with 343,747 share purchase warrants of Pieridae with identical terms; (ii) 1,325,000 stock options of Former Pieridae were replaced with 2,922,618 stock options of Pieridae with substantially identical terms; and (iii) 641,019 stock options of Pétrolia (on a post-Consolidation basis) were replaced with 641,019 stock options of Pieridae with identical terms.

If the acquisition had occurred on January 1 2017, the Company's revenues and net loss would have increased by $342,000 and $14,342,000, respectively. On a normalized basis, the Company's revenues and net loss would have increased by $40,000 and $4,001,000, respectively.

6. CASH AND CASH EQUIVALENTS

	2017 $ [000s]	2016 $ [000s]
Cash	**21,868**	265
Less: Cash and cash equivalents held for exploration purposes		
Flow-through shares[1]	**940**	—
Bourque project[2]	**679**	—
	20,249	68
Less: Restricted cash equivalents[3]	**630**	68
Cash and cash equivalents	**19,619**	197

[1] Cash and cash equivalents held for exploration purposes related to flow-through shares represent the unexpended proceeds of financing related to flow-through shares. According to restrictions imposed under financing arrangements, the Company must allocate these funds to the exploration of oil and gas properties.

[2] Cash and cash equivalents earmarked for future exploration work on the Bourque project represent the remaining cash as at December 31, 2017 from partner advances which, under the agreements, must be spent on exploration work related to the Bourque project.

[3] As at December 31, 2017, a portion of cash and cash equivalents was pledged as security for the performance bonds issued for total amount of $630,000 *[note 15]*.

As at December 31, 2016, a restricted cash account of $68,000 had been established to fund the interest payable to maturity of the Goldboro Land Mortgage *[note 12]*. The mortgage was repaid on November 1, 2017 and the cash account was released from any restriction.

As at December 31, 2017, the portion of cash and cash equivalents pledged as security for the performance bonds bore interest at 0.95% maturing on February 1, 2018. This instrument is redeemable at any time without penalty.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

7. RECEIVABLES

	2017 $ [000s]	2016 $ [000s]
Hydrocarbure Anticosti SEC[1]	**844**	—
Partner	**9**	—
Commodity taxes	**207**	114
Interest receivable	**7**	—
Other	**25**	—
	1,092	114

[1]Petrolia Anticosti is the operator for Hydrocarbure Anticosti in regards to the exploration work on Anticosti Island. The receivable amount comprises recharge of work performed and an amount of $610,000 to assume the liability related to site restoration *[Note 15]*. Hydrocarbure Anticosti is own by Ressources Quebec, a state company of the Government of Quebec.

8. INTERESTS IN ASSOCIATES

On March 4, 2013, the Company entered into a partnership to establish Pieridae Production LP [the "Partnership"] and Pieridae Production GP. Pieridae Production LP was formed to develop gas resources in New Brunswick, Nova Scotia and the Northeast US. The Company as at January 1, 2014 had a 16.98% ownership, and made no further contributions to the Partnership during 2014. During 2015, the Company invested an additional $750,000 increasing its ownership to 20%. Under the terms of the Partnership agreement, the Company is entitled to contribute an additional $14,125,000 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.

(in thousands Canadian dollars)	
Balance as at January 1, 2015	**$3,979**
Share in net loss of associates	(125)
Balance as at December 31, 2016	**3,854**
Share in net loss of associates	(120)
Value of the interest as at December 31, 2017	**3,734**

For the years ended December 31, 2017 and 2016

The associates have no contingent liabilities or capital commitments as at December 31, 2017; however, under the terms of the operating agreement in place for the Partnership there was an agreed annual fee of $600,000 to be paid by Pieridae Production LP to the operator. This amount has been adjusted to $60,000 for 2018.

Summarized financial statement information of the Partnership is disclosed below:

	2017 $ [000s]	2016 $ [000s]
Current assets	**134**	104
Non-current assets	**20,145**	20,145
Current liabilities	**(1,947)**	(1,317)
Net loss for the year	**(600)**	(626)

9. PROPERTY, PLANT AND EQUIPMENT

	Land $ [000s]	Leasehold improvements $ [000s]	IT, office and field equipment $ [000s]	Automotive equipment $ [000s]	Reserves $ [000s]	Field offices $ [000s]	Total $ [000s]
Gross carrying amount							
Balance as at December 31, 2016	**3,354**	—	**35**	—	—	—	**3,389**
Additions	—	—	**9**	—	—	—	**9**
Business combination	**71**	**179**	**50**	**11**	**87**	**54**	**452**
Disposals	—	—	—	—	—	—	—
Balance as at December 31, 2017	**3,425**	**179**	**94**	**11**	**87**	**54**	**3,850**
Accumulated depreciation							
Balance as at December 31, 2016	—	—	**28**	—	—	—	**28**
Depreciation	—	**4**	**10**	**1**	**3**	**2**	**20**
Balance as at December 31, 2017	—	**4**	**38**	**1**	**3**	**2**	**48**
Net carrying amount as at December 31, 2017	**3,425**	**175**	**56**	**10**	**84**	**52**	**3,802**

	Land $ [000s]	Leasehold improvements $ [000s]	IT, office and field equipment $ [000s]	Automotive equipment $ [000s]	Reserves $ [000s]	Field offices $ [000s]	Total $ [000s]
Gross carrying amount							
Balance as at December 31, 2015	3,354	—	35	—	—	—	3,389
Additions	—	—	—	—	—	—	—
Disposals	—	—	—	—	—	—	—
Balance as at December 31, 2016	3,354	—	35	—	—	—	3,389
Accumulated depreciation							
Balance as at December 31, 2015	—	—	21	—	—	—	21
Depreciation	—	—	7	—	—	—	7
Balance as at December 31, 2016	—	—	28	—	—	—	28
Net carrying amount as at December 31, 2016	3,354	—	7	—	—	—	3,361

10. EXPLORATION AND EVALUATION ASSETS

Oil and gas properties

	December 31, 2016 $ [000s]	Business combination $ [000s]	Disposals $ [000s]	Additions $ [000s]	December 31, 2017 $ [000s]
Québec					
Gastonguay	—	**779**	—	—	**779**
Gaspésia – Edgar – Marcel-Tremblay	—	**515**	—	**1**	**516**
Gaspé[1]	—	**565**	—	**1**	**566**
Bourque project[1]	—	**151**	—	—	**151**
Haldimand – Tar Point No. 1 projects[1]	—	**2,638**	—	—	**2,638**
Matapédia	—	**216**	—	—	**216**
Total oil and gas properties	—	**4,864**	—	**2**	**4,866**

For the years ended December 31, 2017 and 2016

Exploration expenses

	December 31, 2016 $ [000s]	Business combination $ [000s]	Disposals $ [000s]	Additions $ [000s]	December 31, 2017 $ [000s]
Québec					
Gastonguay	—	**53**	—	—	**53**
Gaspésia – Edgar – Marcel-Tremblay	—	**3,164**	—	**8**	**3,172**
Gaspé	—	**2,761**	—	**29**	**2,790**
Bourque project	—	**13,694**	—	**149**	**13,843**
Haldimand project	—	**13,538**	—	**148**	**13,686**
Tar Point project No. 1	—	**4,030**	—	**1**	**4,031**
Matapédia	—	**512**	—	**1**	**513**
	—	**37,752**	—	**336**	**38,088**

	December 31, 2016 $ [000s]	Disposals $ [000s]	Additions $ [000s]	December 31, 2017 $ [000s]
Deductions				
Exploration subsidies and partner contributions:				
Gastonguay	—	—	—	—
Gaspésia – Edgar – Marcel-Tremblay	—	—	—	—
Gaspé	—	—	—	—
Bourque project	—	—	**127**	**127**
Haldimand project	—	—	—	—
Tar Point No. 1 project	—	—	—	—
Matapédia	—	—	—	—
	—	—	**127**	**127**
Revenue from oil reserve evaluation:				
Gaspé	—	—	—	—
Haldimand project	—	—	—	—
Total exploration expenses	—	—	—	—

Summary as at December 31, 2017

	December 31, 2016 $ [000s]	Business combination $ [000s]	Disposals $ [000s]	Additions $ [000s]	December 31, 2017 $ [000s]
Oil and gas properties	—	**4,864**	—	**2**	**4.866**
Exploration expenses	—	**37,752**	—	**209**	**37,961**
Exploration and evaluation assets	—	**42,616**	—	**211**	**42,827**

[1] These properties are subject to royalties should they become productive. To date, the Company has satisfied all required obligations.

Gaspé property

Haldimand project

The Company has ownership of 13 licences for the Gaspé property including those for the Haldimand and Tar Point projects.

Bourque project

The Company has an agreement with Ressources Québec inc. and TUGLIQ Energy Corp. to share the exploration costs and risks related to the Bourque project. For Phase I of the project, Ressources Québec inc. and TUGLIQ Energy Corp. have advanced to the Company amounts of $918,200 and $1,350,000, respectively, for a total amount of $2,268,200 to finance the exploration work, in exchange for interests amounting to 4.8% and 5.29%, respectively, in the four licences related to the Bourque property.

Ressources Québec inc. financed the second phase of the Bourque project for a total amount of $8,500,000. This investment consisted of a direct interest in the four licences related to the Bourque property, amounting to $2,000,000 in cash, and a $6,500,000 contribution following a call for funds for exploration work financing. With this investment, Ressources Québec inc. obtained 38.88% of the Company’s interest in these licences and 1.32% of the interest of TUGLIQ Energy Corp. in these licences. Upon completion of this second phase of financing, the interests in the four licences related to the Bourque property amounted to 51.03% for the Company, 45% for Ressources Québec inc. and 3.97% for TUGLIQ Energy Corp.

Matapédia property

The Company has a partnership agreement with Saint-Aubin Énergie S.A.S., a subsidiary of Maurel & Prom, which proceeded with the joint acquisition of equal shares of 13 licences in the Gaspé Peninsula.

11. TRADE AND OTHER PAYABLES

	2017 $	2016 $
	[000s]	[000s]
Trade payables and accrued liabilities	**1,993**	14,716
Salaries, fees, vacation pay and director fees	**217**	731
	2,210	15,447

12. BANK BORROWINGS

	2017 $	2016 $
	[000s]	[000s]
Golboro Land Mortgage bearing interest at a rate equal to the prime rate lending rate of Nova Scotia Bank plus 2% per annum and maturing on August 4, 2017.[1]	—	3,200
Ford Credit loan to acquire automotive equipment, repayable in $600 monthly payments of principal and interest at 2.5% and maturing on November 4, 2019.	**14**	—
Less current portion	**7**	3,200
	7	3,200

The minimum principal payments to be made over the next two years are as follows: 2018 – $7,000; and 2019 – $7,000.

[1] On December 3, 2015, the Company completed the purchase of approximately 107.5 hectares [265.5 acres] of land from the Municipality of the District of Guysborough [the "Goldboro Land"] for $3,200,000. This property is located in the Goldboro Industrial Park and will serve as the site for the proposed LNG facility. As part of the purchase agreement, the Company has the right to sell the land back to the Municipality of the District of Guysborough at any time prior to March 31, 2019 for the purchase price. The Municipality of the District of Guysborough also has the right to repurchase the land for the purchase price at any time after December 31, 2018 if the Company has

not made its final investment decision on the construction of its LNG project or not received the necessary regulatory permits to commence construction of the LNG project. The Company capitalized a further $154,000 of legal and other costs associated with the acquisition of the Goldboro Land.

In connection with this purchase, the Company entered into a $3,200,000 loan agreement [the "Goldboro Land Mortgage"] with the Bank of Nova Scotia in Halifax to finance the purchase. Under the terms of the Goldboro Land Mortgage, interest is to be paid monthly at a rate equal to the prime lending rate of the Bank of Nova Scotia plus 2.0% per annum. The Goldboro Land Mortgage matured on November 4, 2017 and was repaid on November 1, 2017. The loan was secured by the Goldboro Land and a restricted bank account has been established to fund the interest payable to maturity.

13. PARTNER ADVANCES FOR PLANNED EXPLORATION WORK

The following table shows the reconciliation of partner advances for planned exploration work on the Bourque project:

	2017 **$**	**2016** **$**
	[000s]	[000s]
Balance, beginning of year	**—**	—
Business combination	**806**	—
Partner advances	**—**	—
Partner contributions to exploration work carried out	**(127)**	—
Balance, end of year	**679**	—

For the years ended December 31, 2017 and 2016

14. LIABILITY RELATED TO FLOW-THROUGH SHARES

The following table shows the reconciliation of the liability related to flow-through shares:

	2017 $	2016 $
	[000s]	[000s]
Balance, beginning of year	—	—
Business combination	**104**	—
Issuance of flow-through shares *[note 20]*	—	—
Reduction of the liability based on the work carried out in respect of which the Company has renounced the tax deductions *[note 19]*	—	—
Balance, end of year	**104**	—

15. PROVISION FOR SITE RESTORATION

Management calculates the total provision for future site restoration based on the Company's net share, on the basis of the interest held in the properties being drilled, of the estimated costs of abandoning and restoring wells and facilities, and of the estimated timing of future costs to be incurred.

As at December 31, 2017, the total future estimated amount required to settle obligations related to site restoration, indexed at 2%, stood at $2,740,000. The total future amount will be discounted using a weighted average rate of 2.5% over a horizon ranging from 1 to 19 years. The total undiscounted amount of the estimated cash flows required to settle these obligations was $3,705,000.

The following table presents the reconciliation of the provision for site restoration:

	2017 $	2016 $
	[000s]	[000s]
Balance, beginning of year	—	—
Business combination	**2,740**	—
Balance, end of year	**2,740**	—
Less current portion	**(610)**	—
	2,130	—

Security deposits amounting to $600,000 were paid by the Company under performance guarantees and letters of guarantee amounting to $630,000 were issued by a financial institution to the Ministère des Ressources naturelles to guarantee the completion of certain site closures. The performance guarantee must be kept in effect until the definitive closure of the wells. The partners advanced an amount of $294,000 to finance their share of the security deposits relating to the Bourque project *[note 13]* and that amount is reported in non-current liabilities as it is will be recovered by the partners once the security deposits are released by the Ministère des Ressources naturelles.

Current portion of an amount of $610,000, comprises the provision for two wells located on Anticosti Island and for which the Governement of Quebec, through Hydrocarbure Anticosti SEC, will assume the liability. An account receivable for the same amount is recognized in account receivables *[note 7]*.

16. PROMISSORY NOTES

	2017	**2016**
	$	**$**
	[000s]	[000s]
US dollar promissory notes		
Balance, beginning of year	**1,477**	—
Issued [US$ 1.1 million]	—	1,563
Foreign exchange	**(76)**	(86)
Reimbursement	**(1,401)**	
	—	1,477
Canadian dollar promissory notes		
Balance, beginning of year	**652**	—
Issued	**125**	652
Reimbursement	**(752)**	—
	25	652

On January 11, 2016, the Company entered into a promissory note with one of its shareholders for US$1.1 million. The promissory note is unsecured, bears interest at a rate of 10% per annum and is due upon demand.

On May 3, 2016, the Company entered into two promissory notes with two of its shareholders for $300,000. In 2016, the Company has entered into further promissory notes with three of its shareholders for a further $352,000.

On April 1, 2017, the Company entered in two promissory notes for an amount of $75,000 and entered in another for an amount of $50,000 on August 1, 2017.

All outstanding promissory notes were reimbursed on December 1, 2017 except for a note of an amount of $25,000. The promissory notes are unsecured, bear interest at a rate of 10% per annum and are due upon demand**.**

17. CONVERTIBLE LOAN AND CONVERSION RIGHT

On November 27, 2015, the Company agreed to a US$5,000,000 loan with one of its shareholders [the "Loan Agreement"]. Under the terms of the Loan Agreement interest is to be paid at a rate of 10% per annum, with interest paid at maturity of the loan. Any outstanding amount under the Loan Agreement, including any unpaid interest, can be converted into common shares of the Company at either the option of the holder, at a conversion price of $15.00 per share at any time prior to maturity, or at the option of the Company, at a conversion price of $12.50 per share on the day prior to maturity. The Loan Agreement provides security to the holder of a floating charge of all of the Company's right, title, estate and interest in and to all of its present and after-acquired real property. The loan was to mature at the earlier of October 1, 2017 and the date the final investment decision is made by the Company on the Goldboro LNG facilities or the date there is a change of control of the Company. The conversion feature was determined to be a derivative and is required to be separated from the convertible loan and accounted for at fair value. The loan was converted by the Company on October 20, 2017 for 449,120 common shares of the Company.

As the convertible loan was issued to a related party, the transaction was determined to be made with an owner in that capacity. Accordingly, the difference between the fair value of the combined convertible loan and conversion right and the cash consideration was recorded in contributed surplus. When the loan was extended on September 28, 2016, the difference in fair value resultant from the extension was also recorded in contributed surplus. However, all changes to the estimated fair value of the conversion feature have been recorded in the consolidated statements of comprehensive loss. The amounts recorded in contributed surplus are as follows:

	2017	**2016**
	$	**$**
	[000s]	[000s]
Balance, beginning of year	**2,752**	1,406
Fair value of the conversion feature	—	544
Change in fair value attributable to the extension of loan agreement	—	802
Balance, end of year	**2,752**	2,752

[a] Conversion right

	2017 $ [000s]	2016 $ [000s]
Balance, beginning of year	**2,429**	927
Gain (loss) on change in value of conversion right	**(2,257)**	659
Foreign exchange gain	**(172)**	41
Change in fair value attributable to the extension of Loan agreement	**—**	802
Balance, end of year	**—**	2,429

Upon completion of the Loan Agreement, the initial value of the conversion right was calculated utilizing a valuation method that incorporated both the Black-Scholes valuations of the conversion rights held both by the Company and holder of the Loan Agreement and the associated estimated probabilities of each conversion right being exercised. Subsequent changes in the fair value of the equity conversion component were recorded within the consolidated statement of comprehensive loss. The various assumptions utilized for the calculation of the conversion right are as follows:

	2017	2016
Canadian to US dollar conversion rate	**$1.2480**	$1.3427
Share price (post-Consolidation)	**$5.67**	$4.08
Risk free rate	**0.48%**	0.73%
Expected life	**0.25 years**	0.75 years
Expected volatility	**60%**	60%
Probability of holder exercising	**5%**	5%
Probability of Company exercising	**95%**	95%

[b] Convertible loan

	2017 $ [000s]	2016 $ [000s]
Balance, beginning of year	**6,297**	6,487
Accretion	**398**	552
Foreign exchange gain	**(455)**	(198)
Extension of Loan Agreement	—	(544)
Conversion of Loan agreement	**(6,240)**	—
Balance, end of year	—	6,297

Upon completion of the Loan Agreement, the initial value of the convertible loan was calculated as the present value of the expected future payments, including interest, utilizing an estimated market interest rate for a similar loan of 20%. The difference between the loan proceeds received by the Company and the present value of the expected future payments, and the value of the conversion right, was recognized as contributed surplus. Subsequently, the Company has recognized accretion of the convertible loan and the change in value associated with the change in the foreign exchange rate of the loan, with these being recorded within the consolidated statements of comprehensive loss.

18. DEFERRED ACCOUNTS PAYABLE

On July 29, 2017 the Company entered into an agreement with its vendor CB&I UK Limited ("CB&I") whereby the Company agreed to pay GBP 1,837,200 of total amounts due to CB&I of GBP 6, 352,304. In exchange for the agreed payment, CB&I has agreed the remaining amount of GBP 4,515,104 (CAD 7,659,000) and an amount of $177,000 due to CB&I Canada will be paid only if a proceed decision on the LNG project results in the award of an engineering contract to CB&I or another party. If the project does not proceed, or at any time Pieridae cancels or abandons the project, the Company has no obligation to pay the remaining amount.

19. DEFERRED TAX

Reconciliation of tax expense

The relationship between the expected income tax expense calculated on the basis of the combined federal and provincial rate in Canada and the tax expense presented in net loss is reconciled as follows:

	2017 $	2016 $
	[000s]	[000s]
Loss before taxes	**(9,287)**	(14,088)
Income tax at combined statutory rate of 30.8% [2016 – 31.0%]	**(2,860)**	(4,367)
Adjustments for the following items:		
Share-based payments	**1,107**	661
Accretion on convertible loan	**123**	171
Change in contingent liability	**(36)**	—
Non-deductible losses	**292**	—
Other non-deductible expenses	—	1
Impact of change in deferred tax rate	**144**	—
Change in unrecognized deferred tax assets	**867**	3,534
Deferred tax expense (recovery) recognized in net loss	**(363)**	—

Deferred income taxes:

Recognized deferred tax assets and liabilities:

	2017 $	2016 $
	[000s]	[000s]
Deferred tax assets		
Non-capital losses	**4,351**	—
		—
Deferred tax liabilities		
Exploration and evaluation assets	**4,336**	—
Property plant and equipment	**15**	—
	4,351	—
Deferred tax, net	—	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

Unrecognized deferred income tax assets:

	2017 $ [000s]	2016 $ [000s]
Non-capital losses	**18,401**	17,000
Capital losses	**292**	—
Financing expenses	**836**	—
Property plant and equipment	—	4
Unrecognized deferred tax assets	**19,529**	17,004

As at December 31, 2017, the amounts and expiry dates of the tax attributes for which no deferred tax assets are recognized are as follows:

	2017	
	Canada	
	Federal $ [000s]	Provincial $ [000s]
2032	**225**	225
2033	**9,092**	8,635
2034	**17,333**	17,333
2035	**36,417**	36,417
2036	**3,923**	3,923
2037	**7,115**	7,116
Loss recognized to offset the deferred tax liability	**(14,126)**	(14,126)
	59,979	59,523

On December 31, 2017, the Company has carryforward net capital losses of an amount of $949,000 [2016 – nil] for which no deferred tax assets are recognized. Net capital losses can be carryforward indefinitely.

20. SHARE CAPITAL

Authorized

Unlimited number of common, participating, voting shares without par value.

Private placements

On April 27, 2016, the Company closed a private offering of 20,000 common shares at a price of $12.50 per common share for aggregate cash proceeds of $250,000.

On May 3, 2016, the Company closed a private offering of $500,000 of warrants to existing shareholders. The warrants had an automatic conversion date of July 1, 2016, or upon a change of control of the Company if it occurred prior to that date, at a price equal to either $9.00 per common share or at the price per common shares realized from the completion of a private placement prior to July 1, 2016. The warrants were automatically converted on July 1, 2016 with the issuance of 55,556 common shares.

On August 28, 2017, the Company closed a private placement for a gross proceeds of $25,652,000, which included the issuance of 1,970,600 subscription receipts at a subscription price of $12.50 ($5.67 on a post-Consolidation basis) per subscription receipt which, immediately prior to the completion of the Arrangement between Pieridae and Pétrolia, was converted into Pieridae Shares and exchanged for common shares of the amalgamated company as part of the Arrangement and a commission of $1,019,000 was satisfied by the issuance of 81,530 Pieridae Shares to the agents. The company also incurred other issuance expenses amounting to $24,000 for a total net proceeds of $24,609,000.

Exercise of stock options

During the year ended December 31, 2017, the Company received $636,000 for the issuance of 823,136 shares (on a post-Consolidation basis). Following the exercises, a total amount of $2,578,000 was reclassified from contributed surplus to the share capital.

Consolidation of shares

On October 24, 2017 amalgamation between the Company and Petrolia Inc, was entered into by way of a plan of arrangement. The consolidation of shares is detailed in *note 5*. In regards to this plan of arrangement, the Company incurred transaction costs of $1,395,000.

Contribution of non-controlling interests

During the year ended December 31, 2017, the Company received $80,000 in contributions from the non-controlling interests in Goldboro LNG Limited Partnership *[note 21]*.

For the years ended December 31, 2017 and 2016

Share-based payments

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. The Company has no legal or constructive obligation to repurchase or settle the options.

The Company's stock options are detailed as follows for the reporting periods presented, numbers of shares and exercise prices are on a post-Consolidation basis *[note 5]:*

	2017		**2016**	
	Number of options	**Weighted average exercise price** $	**Number of options**	**Weighted average exercise price** $
Outstanding, beginning of year	**3,584,344**	**3.27**	3,143,194	2.93
Business combination	**641,020**	**6.31**	—	—
Granted	—	—	441,150	5.67
Exercised	**(1,348,854)**	**0.47**	—	—
Forfeited	**(1,041,125)**	**10.96**	—	—
Outstanding, end of year	**1,835,385**	**4.92**	3,584,344	3.27
Exercisable	**1,497,756**	**4.75**	672,753	0.45

The following table provides summary information on the stock options issued and outstanding as at December 31, 2017, numbers of shares and exercise prices are on a post-Consolidation basis *[note 5]*:

	Outstanding options		Exercisable options	
Range of exercise prices	**Number**	**Weighted average years to expiry**	**Number**	**Weighted average exercise price $**
<$0.01–$0.45	44,115	3.44	44,115	0.01
$1.98–$4.08	1,176,377	3.44	838,748	3.82
$5.67–$8.04	575,310	3.29	575,310	5.95
$10.68–$13.68	39,583	0.62	39,583	12.06
<$0.01–$13.68	**1,835,385**	**3.33**	**1,497,756**	**4.75**

The following table provides summary information on the stock options issued and outstanding as at December 31, 2016 numbers of shares and exercise prices are on a post-Consolidation basis *[note 5]*:

	Outstanding options		Exercisable options	
Range of exercise prices	**Number**	**Weighted average years to expiry**	**Number**	**Weighted average exercise price**
<$0.01–$0.45	1,378,594	1.17	672,753	$0.45
$4.08	882,300	4.44	—	—
$5.67	1,323,450	4.69	—	—
<$0.01–$5.67	**3,584,344**	**3.27**	672,753	$0.45

The weighted fair value of stock options granted during 2016, on a post-Consolidation basis, was $1.40 per option at the grant date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

No stock option were granted in 2017. The fair value of stock options granted by the Company to directors, officers and key employees in 2016 was determined using the Black-Scholes option pricing model and the following weighted average assumptions, on a post-Consolidation basis:

	)16
Exercise price (post-Consolidation)	$4.08
Risk-free interest rate	0.68%
Average expected volatility	60%
Expected life (years)	3-5 years
Expected dividend yield	Nil

The underlying expected volatility was determined by reference to historical data over a period comparable to the expected life of options.

Warrants

Outstanding warrants allow holders to subscribe to an equivalent number of common shares, on a post-Consolidation basis, as follows:

	2017	
	Number of warrants	**Weighted average exercise price** $
Balance, beginning of year	—	—
Business combination	343,747	6.48
Issued	—	—
Expired	—	—
Balance, end of year	343,747	6.48

There was no outstanding warrant as at December 31, 2016

The number of outstanding warrants that can be exercised for an equivalent number of common shares, on a post-Consolidation basis, is established as follows:

	2017	
Expiry date	**Number of warrants**	**Exercise price** $
November 6, 2018	343,747	6.48

There were no outstanding warrants as at December 31, 2016

21. NON-CONTROLLING INTEREST

During 2014, the Company, Pieridae Energy (Canada) Ltd. And Uniper entered into an agreement, whereby Uniper acquired 1% ownership in Goldboro LNG LP and Pieridae Energy (Canada) Ltd. for a total consideration $288 000. During 2017 and 2016, Uniper contributed a further $80,000 and $51,000 respectively. In 2017, the ownership of Uniper was reduced to 0.79%.

22. LEASES

	Minimum lease payments due			
	Less than 1 year $ [000s]	**1 to 5 years** $ [000s]	**More than 5 years** $ [000s]	**Total** $ [000s]
December 31, 2017	53	238	126	417
December 31, 2016	6	—	—	6

The Company leases offices under leases expiring in 2026 [2016 – offices under leases were on monthly basis without obligation of leasing].

During the fiscal year, lease payments recognized as expenses, before amortization of deferred lease inducements, totalled $52,000 [2016 –$82,000], of which an amount of $4,000 [2016 – nil] was charged to exploration and evaluation assets. This amount represents minimum lease payments.

The Company's rental contracts do not contain any contingent rent clauses, restrictions on dividends, additional debt or further leasing.

23. EMPLOYEE BENEFITS EXPENSE

Expenses recognized for employee benefits are broken down below:

	2017 $	2016 $
	[000s]	[000s]
Salaries and employee benefits	**965**	1,272
Share-based compensation	**3,615**	2,154
	4,580	3,426
Less: Amounts capitalized in exploration and evaluation assets and re-invoiced	**162**	—
Employee benefits expense	**4,610**	3,426

Share-based compensation is broken down as follows:

	2017 $	2016 $
	[000s]	[000s]
Consolidated statements of loss	**3,595**	2,154
Exploration and evaluation assets	**20**	—
Total	**3,615**	2,154

24. LOSS PER SHARE

Basic loss per share is calculated by dividing net loss for the fiscal year by the weighted average number of common shares outstanding during the period. In calculating diluted loss per share for the years ended December 31, 2017 and 2016, potential common shares, such as certain options and warrants, were not included as they would have the effect of decreasing the loss per share, which would be antidilutive.

Both basic and diluted loss per share have been calculated using net loss attributable to the entity holders of the Company for the period as the numerator, therefore no adjustment to loss was necessary.

	2017	**2016**
Net loss attributable to entity holders of the Company (in thousand Canadian dollars)	**$(8,825)**	$(14,002)
Weighted average number of shares – basic[1]	**37,312,304**	15,565,045
Dilutive effect of warrants and options	**—**	—
Weighted average number of diluted shares[1]	**37,312,304**	15,565,045
Basic net loss per share[1]	**$(0.237)**	$(0.900)
Diluted net loss per share[1]	**$(0.237)**	$(0.900)

[1]2017 weighted average number of shares and loss per share are calculated on a post-Consolidation basis.

25. RELATED PARTY TRANSACTIONS

The Company's related parties include other related parties and key management personnel, as described below.

Transactions with key management personnel

Key management personnel compensation includes the following expenses:

	2017 **$** [000s]	**2016** **$** [000s]
Short-term employee benefits:		
Salaries and employee benefits	**520**	511
Director fees	**35**	—
Total short-term employee benefits	**555**	511
Fees	**63**	210
Share-based compensation	**450**	1,540
Total compensation	**1,068**	2,261

During the years ended December 31, 2017 and 2016, no options granted under the stock option plan were exercised by key management personnel of the Company.

Related companies and other parties

Transactions were carried out:

With a company in which a director is a majority shareholder:

	2017	2016
	$	$
	[000s]	[000s]
Comprehensive loss:		
Other expenses	**4**	—

These transactions were in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

26. CAPITAL MANAGEMENT

The Company's capital management objectives are to ensure the Company's ability to pursue its development and exploration activities. The Company's capital consists of share capital. Management regularly reviews its capital management policy on a going concern basis and believes that this is a reasonable approach considering the Company's size.

The Company's financial strategy is developed and adapted according to market conditions in order to maintain a flexible capital structure in compliance with the aforementioned objectives and to respond to the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, additional debt facilities and/or consider strategic alliances including joint venture partners.

There were no material changes to the Company's capital management policies during the year ended December 31, 2017.

27. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured at fair value or amortized cost. The classification of financial instruments as well as their carrying amounts and fair values are presented in the table below:

For the years ended December 31, 2017 and 2016

	December 31, 2017			
	Fair value through profit or loss $	**Loans and receivables** $	**Other financial liabilities** $	**Total carrying amount** $
	[000s]	[000s]	[000s]	[000s]
Financial asset				
Cash and cash equivalents[1]	**21,238**	—	—	**21,238**
Restricted cash equivalents	**630**	—	—	**630**
Receivables[2]	—	**885**	—	**885**
	21,868	**885**	—	**22,753**
Financial liability				
Trade and other payables	—	—	**2,210**	**2,210**
Partners' share in security deposits	—	—	**294**	**294**
Bank borrowings	—	—	**14**	**14**
Promissory notes	—	—	**25**	**25**
Deferred account payables	—	—	**7,836**	**7,836**
	—	—	**10,379**	**10,379**

	December 31, 2016			
	Fair value through profit or loss $	**Loans and receivables** $	**Other financial liabilities** $	**Total carrying amount** $
	[000s]	[000s]	[000s]	[000s]
Financial asset				
Cash and cash equivalents[1]	197	—	—	197
Restricted cash and cash equivalent	68	—	—	68
Receivables[2]	—	—	—	—
Conversion right *[note 17]*	2,429	—	—	2,429
	2,694	—	—	2,694
Financial liability				
Trade and other payables	—	—	15,447	15,447
Bank borrowings	—	—	3,200	3,200
Promissory notes	—	—	2,129	2,129
Convertible loan	—	—	6,297	6,297
	—	—	27,073	27,073

[1]Fair value of cash and cash equivalents is equal to the carrying amount.

[2]Excluding tax credits and commodity taxes as these amounts do not represent a contractual right to receive an amount.

Risk management policy

The Company's financial assets and liabilities expose it to various risks. The following analysis provides an assessment of those risks as at the statement of financial position date of December 31, 2017.

Credit risk

The assets that give rise to potential credit risk exposure for the Company consist primarily of cash and cash equivalents, receivables and security deposits. Cash and cash equivalents are held with or are issued by established Canadian financial institutions, whereas the security deposits are held by the Government of Québec. Receivables primarily consist of amounts receivables in relation to commodity taxes or from Government of Quebec subsidiaries. Management considers the risk of non-collection to be low.

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, 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 through the issuance of the Goldboro Land Mortgage, promissory notes and convertible loan.

For the years ended December 31, 2017 and 2016

The tables below show the maturities of financial liabilities:

	December 31, 2017				
	Current portion $	**Due in 1 to 3 years** $	**Due in 4 to 5 years** $	**Due in more than 5 years** $	**Total** $
	[000s]	[000s]	[000s]	[000s]	[000s]
Trade and other payables	**2,210**	—	—	—	**2,210**
Partners' share in security deposits	—	—	—	**294**	**294**
Bank borrowings	**7**	**7**	—	—	**14**
Promissory notes	**25**	—	—	—	**25**
Deferred account payables	**7,836**	—	—	—	**7,836**
	10,078	**7**	—	**294**	**10,379**

	December 31, 2016				
	Current portion $	**Due in 1 to 3 years** $	**Due in 4 to 5 years** $	**Due in more than 5 years** $	**Total** $
	[000s]	[000s]	[000s]	[000s]	[000s]
Trade and other payables	15,447	—	—	—	15,447
Bank borrowings	3,200	—	—	—	3,200
Promissory notes	2,129	—	—	—	2,129
Convertible loan	6,297	—	—	—	6,297
	27,073	—	—	—	27,073

For the years ended December 31, 2017 and 2016

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 other price risk.

Interest rate risk

The Company is exposed to fair value risk through interest rate risk on its fixed-rate financial instruments.

Currency risk

The Company is also exposed to fluctuations in foreign exchange rates as certain accounts payable and accrued liabilities and commitments *[note 11]* are US dollar, UK pound sterling and Euro denominated. If the Canadian dollar was to change by one percent against the various currency exposures, the impact to the foreign exchange gain or loss would have been approximately $68,000. To date, the Company has not entered into any foreign currency transactions or financial instruments to manage currency risks.

Price risk

While the Company is still in a pre-development phase, it is not directly subject to fluctuations in commodity prices. However, fluctuations in commodity prices, specifically the price of LNG and the price of the North American gas supply, have a significant impact on the Company's 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2017 and 2016

28. COMMITMENTS

Under the terms of exploration licences granted by the Ministère des Ressources naturelles et de la Faune du Québec, the Company is committed to pay fees in the amount of $2,922,000 by 2026. The minimum payments required in the next five years are as follows:

2018	**2019**	**2020**	**2021**	**2022**
$	$	$	$	$
[000s]	[000s]	[000s]	[000s]	[000s]
136	136	177	489	526

The adoption of Bill 18 in Québec suspends some of these statutory work obligations for up to three years while at the same time extending the validity of all the licences for the same period. In June 2014, this period was extended until an act on hydrocarbons is tabled. On December 9, 2016, Bill 106, *Act to implement the 2030 Energy Policy and to amend various legislative provisions*, was adopted. However, as of the date of these financial statements, Bill 106 and its underlying regulations have not yet come into force. As a result, even though the obligation pertaining to the performance of statutory work remains suspended, the Company may still continue its exploration operations.

29. CONTINGENCIES

Financing

The Company was financed in part by the issue 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. Before amalgamation, during the fiscal year ended December 31, 2017, Petrolia received $940,000 in private placements following the issuance of flow-through shares for which it renounced to related tax deduction. The eligible expenses are to be incurred no later than December 31, 2018.

Environment

The Company's operations are regulated by governmental laws relating to environmental protection. Environmental consequences are difficult to predict, whether in terms of their outcomes, timing or impact. Currently, to the best of management's knowledge, the Company is operating in compliance with current legislation.

Litigation

The Company is subject to certain legal disputes in the normal course of business. Management believes that the Company has set aside sufficient provisions to cover potential losses in relation to such litigation.

Provision for contingent liability

The following table presents the reconciliation of the provision for contingent liability:

	2017 **$** [000s]	**2016** **$** [000s]
Balance, beginning of year	—	—
Business combination	**700**	—
Change in provision	**(117)**	—
Balance, end of year	**583**	—

The Company was financed in part by the issuance of flow-through shares. As at December, 2017, the balance of eligible expenses to be incurred amounted to $940,000 by December 31, 2018. An amount of $895,000 was to be incurred by December 31, 2017 but the Company has not received the necessary permits from the Government of Quebec for completing sufficient Canadian exploration and evaluation expenses to fully meet its undertaking to the subscribers of flow-through shares issued in 2016. Accordingly, the Company has recorded a provision of $700,000 through the business combination and then adjusted the amount to $583,000 relating to potential penalties relating thereto. If the Company receives the necessary permit from the government to execute the planned exploration work, it expects to meet its obligation regarding expenses to be incurred before December 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

30. SUPPLEMENTAL CASH FLOW INFORMATION

Reconciliation of the increase in exploration and evaluation costs, net of recovered amounts:

	2017 $ [000]	2016 $ [000]
Additions to exploration costs	**209**	—
Non-cash acquisition		
Depreciation of property, plant and equipment	**(15)**	—
Share-based compensation	**(16)**	—
Amortization of deferred lease inducements	**1**	—
Change in non-cash working capital items	**2**	—
Increase in net exploration and evaluation costs, net of recovered amounts	**181**	—

Other information:

	2017 $ [000]	2016 $ [000]
Interests paid	**1,005**	88
Interests received	**64**	—

	2017 $ [000]	2016 $ [000]
Cash	**21,868**	265
Less: Restricted cash equivalents	**(630)**	(68)
	21,238	197

31. COMPARATIVE FIGURES

Certain 2016 comparative figures have been reclassified to conform with the financial statements presentation adopted for 2017.

PIERIDAE ENERGY

ADMINISTRATIVE AND OPERATING EXPENSES

For the years ended December 31

Schedule A

	2017	2016
	$	$
	[000]	[000]
Administrative expenses		
Share-based compensation	**160**	**543**
Salaries and employee benefits	**462**	**558**
Board of Directors fees	**38**	**—**
Travel	**9**	**10**
Professional services	**244**	**237**
Depreciation of property, plant and equipment	**5**	**—**
Other expenses	**146**	**2**
Total administrative expenses before re-invoicing of expenses	**1 064**	1 350
Re-invoicing of expenses	**(1)**	—
	1 063	1 350

Schedule B

	2017	2016
	$	$
	[000]	[000]
Operating expenses		
Engineering and consulting	**945**	9 486
Environmental review	**38**	195
Share-based compensation	**3 455**	1 590
Salaries and employee benefits	**503**	1 087
Travel	**69**	87
Professional services	**6**	218
Depreciation of property, plant and equipment	**15**	7
Other expenses	**199**	**190**
Total operating expenses before re-invoicing of expenses and transfer to exploration and evaluation assets	**5 230**	12 860
Re-invoicing of expenses[1]	**(33)**	—
Transfer to exploration and evaluation assets	**(178)**	—
	5 019	12 860

[1] Re-invoiced expenses consist of salaries and employee benefits.

FINANCIAL INCOME AND EXPENSES

For the years ended December 31

Schedule C

	2017	2016
	$	$
	[000]	[000]
Financial income and expenses		
Interest income	**(71)**	—
Bank charges	**21**	6
Interest expense	**844**	977
Accretion expense	**398**	552
Loss on conversion right	**2 257**	(659)
Penalties on flow-through shares	**(117)**	—
Loss (gain) on foreign exchange	**(157)**	(1 123)
	3 175	(247)