March 24, 2022

Annual Report 2021

Rising Toward a Prosperous Future

Pieridae assets near Edson, Alberta.

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Annual Report 2021 – Rising Toward a Prosperous Future

Vision: **To provide the energy to fuel people's lives while supporting the environment and the transition to a lower-carbon economy.**

Our company's business vision has taken on a much more relevant focus since we first developed it in 2021. With the Russian invasion of Ukraine early in 2022, the need to ensure the globe has the energy necessary it needs to cook food and heat homes has, perhaps, never been as pronounced. With Russia holding sway a continent away, a simple turn of a valve stops the flow of 40% of the natural gas to Europe. The issue of security of supply is staring the world in its face and countries are scrambling to look for alternative supplies away from the Russian Bear.

While we are looking into a potential option for a floating LNG Project that would offer stable Canadian energy to help meet that need, LNG for Pieridae is not the focus it has been since the company's inception a decade ago. We have evolved from an integrated LNG firm with an upstream business to one where LNG is now a potential option, as Pieridae focuses on building our production company and having a viable carbon strategy in place, allowing us to become carbon neutral in the next decade. At the same time, if we can find an economic solution to relaunch the LNG project in 2022, we will do that, but it's going to be a secondary objective to building our Alberta-based production business.

A POTENTIAL PIERIDAE LNG SOLUTION?

With countries such as Latvia saying it would welcome Canada's natural gas to supply a proposed LNG import terminal, to Germany fast tracking the construction of a pair of LNG import facilities that were shelved under a year ago, the face of energy development and government policy has been turned on its head.

Pieridae's option to provide that needed gas is in the form of a floating LNG vessel that would be moored in the same Goldboro, Nova location as we have always intended. The main difference is the Project would be much smaller than the previous land-based initiative. We are looking at a 2.4 million tonnes per annum (MMPTA) project instead of a 10 MMPTA project. Naturally, your gas requirements drop substantially as well, from 800 mmcf/d to 400 mmcf/d which puts a lot less reliance on Canada's pipeline systems capacity. Still, getting the gas to the East Coast remains a fundamental issue as modifications would surely be needed.

There is also a choice between having a vessel built for you or lease an existing one. A new FLNG barge would fit your specific requirements but does come with an approximate $2.3 billion price tag. The capital outlay for a leased vessel is substantially less and the timeline shorter as nothing needs to be constructed, simply re-configured for the Canadian climate.

One of the biggest advantages of a smaller project is a big drop in CO_2 emissions, three million tonnes/year for the land-based project, down to 420,000 tonnes/year for FLNG, which would be more than covered off by Pieridae's Caroline Carbon Capture Power Complex (to be built) with a capacity to store three million tonnes of CO_2 a year.

> *During the past year, Pieridae has transformed from being LNG project-focused with an upstream business, to an exploration and production company with a compelling LNG project option.*

THE LARGEST FOOTHILLS PRODUCER IN NORTH AMERICA

As the largest Foothills producers in North America, our upstream assets are diverse and make up some of the largest conventional gas reservoirs on the continent.

Across Alberta and British Columbia, our footprint stretches over one million acres; with ownership of three deep cut, sour gas plants, more than 3,800 kilometres of pipelines and production growth ranging from 40,000-45,000 boe/d, including 200 mmcf/d of gas and 8,500 bbls/d of liquids, producing conventional natural gas.

Over a Million Acres of Land

Pieridae's assets with the highest production are in the Southern and Central Foothills of Alberta's Rocky Mountains.

The Waterton, Carbondale, Burmis and Hinton wells have been producing oil and natural gas for 20 to 50 years, providing the fuel families need every day to heat their homes and cook their food.

We also have production capacity in the Northern Foothills of Alberta and in Northern BC.

Our natural gas comes from more environmentally friendly conventional Foothill's reservoirs of the Western Canada Sedimentary Basin (WCSB) thanks to the knowledge and insight of our experienced technical team.

LETTER TO SHAREHOLDERS

Turning the Page

We have begun to look beyond the pandemic that has held the world in its grasp since 2020, while recognizing its profound impact on the macroeconomic environment within our industry. It was encouraging to see commodity prices offer a tangible sign of hope in 2021 many had been looking for, surging to a 10-year high last fall.[1] Increased demand kickstarted a global economic recovery the likes of which had not been seen since the negative days brought on by the pandemic. One needs to look no further than energy prices ending 2021 59% higher than the first trading day of the year.[2]

From an overall macroeconomic perspective, the rise in energy prices helped to stabilize the ship somewhat. In 2022, the reopening of world economies is placing enormous stress on existing energy production infrastructure worldwide. Multi-year under-investment in the industry the past three years means energy demand has and will likely continue to surge past existing production capacity, resulting in higher and more volatile energy prices for the foreseeable future. We believe this macro supply-demand imbalance will take many years to correct. Fortunately, with the asset mix Pieridae possesses, we are exceptionally well placed to capitalize on these circumstances and grow our business across all commodity lines.

Building on strong economics and the Government of Alberta lifting COVID restrictions, we now have the opportunity to further build company culture. Bringing collaboration back into the office after two years of working apart will help energize our focus and direction. Through this improved environment, we can better pursue synergies, tackle our issues, take advantage of our opportunities and build on past successes.

Pieridae achieved a number of operational successes in 2021. We had large turnarounds, which are planned maintenance shutdowns, at two of our gas complexes: Jumping Pound and Caroline. Both were completed very close to budget and on time, which took a significant amount of planning and effort. The fact that we were able to complete those two turnarounds without any degree of COVID-related interruption is a testament to the efforts of the entire Pieridae team. These projects ensured the facilities were ready for the harsh cold of winter and beyond.

An ongoing commitment to safety and watching COVID move to our rearview mirror were offset by the state of flux our company experienced for a number of months in 2021. This was primarily due to the announced Strategic Review that kicked off at the end of July. The process initiated opportunities to either recapitalize the balance sheet or to monetize certain assets or the company itself.

In the end, the special Board committee set up to oversee the Review concluded the various alternatives presented were not compelling relative to the company's stand-alone prospects. The restructuring of Pieridae's credit agreement announced January 4, 2022 played a pivotal role in the special committee's conclusion and it was fully supported by the entire Pieridae Board.

One of the big lessons coming out of that process is that the marketplace sees Foothills development opportunities as challenging. Our job in 2022 is to prove that while yes, they are challenging, there is significant economic opportunity in doing so successfully. We need to prove that and show the marketplace the Foothills are an economic place to develop oil and gas resources that are competitive with the Montney. And that's why drilling wells this year is such an important part of our overall plan, demonstrating we are able to drill economically in Alberta to bring on new production to help fill up our gas plants, lower per-unit operating costs and increase revenue.

Pieridae also continues to look at ways to strengthen the relationship with our First Nations neighbours on Stoney Nakoda reserve lands. These reserve lands contain the largest untouched conventional resources so the opportunity to bring that gas supply to our Jumping Pound facility is important and we hope to initiate that process in 2022. It's a way for us to work with the Indigenous community and allow the Stoney access into the gas plant and the benefits that come with it.

> *"We're going to take our story and show the marketplace the Foothills are still an economic place to drill."*
> **Alfred Sorensen – Chief Executive Officer**

[1] Bloomberg 'Commodities Prices Are Surging Again' – September 13, 2021

[2] S&P Goldman Sachs Commodity Index (GSCI)

As we look for ways to add additional gas to those plants, we continue to evolve our risk management processes to ensure we balance meeting our obligations to hedge and protect revenue while also taking advantage of rising commodity prices. Hedging was very expensive for us in 2021 as we came into the year with a larger percentage of our gas production hedged at prices far below market, particularly in the last half of the year.

Hedging can be a useful tool but it can become very expensive because you've got to have credit to do it and ensure volumes are available when needed. It's a delicate balance when it comes to understanding the impact hedges have on our overall business. It is difficult to hedge in a rising market and you also need to be prepared to hedge in a falling market. Just to put it in context, look at what happened in 2020 when natural gas and crude oil prices collapsed significantly, more so than they had ever had before. Pieridae was hedged going into 2020 and those hedges performed very well. One of the reasons we survived that period was the fact that we took advantage of our hedge position and it allowed us to monetize our position and participate in the price recovery. So, hedging is a bit of a double edged sword, but it can be used effectively to manage the capital requirements of the company to ensure our long liquidity.

Subsequent to the Strategic Review, we continue to look for ways to recapitalize Pieridae's balance sheet. Nothing is more important than refinancing the company's debt. Discussions to find solutions that make sense for both shareholders and for our lender are ongoing. The company did reach an agreement with our main lender to incorporate the $50 million deferred fee owing to them into the overall loan currently due in October of 2023. The deferred fee will not accrue interest while outstanding.

The issue of the transfer of licenses from Shell to Pieridae for the Foothills assets we purchased in the fall of 2019 must be resolved. Late in 2021, the Alberta Energy Regulator or AER released updated guidelines for companies when transferring assets. Those guidelines are significantly more stringent than what existed when we originally did the transaction with Shell. As a result, both Shell and Pieridae decided to revise the application and plan to resubmit at a future date under the new regulatory framework. Importantly, Pieridae continues to own the Foothills assets and has responsibility for their safe operation while Shell remains the licensee of record.

While we did not experience any significant production setbacks due to the COVID pandemic in 2021, it had a significant impact on the company by contributing to our inability to reach a final investment decision to build the Goldboro LNG project, fully integrate it into the natural gas markets in Western Canada, and finance that whole process by having our long term natural gas sales agreement with German energy company Uniper. Reaching a final investment decision for the Project would have allowed us the ability to access a much lower cost of capital. Our business plan was sidelined as a result of the inability to achieve FID.

This outcome has changed the primary focus of Pieridae from an integrated LNG company with an upstream business to an upstream company with a potential LNG option.

"We had a huge strengthening of commodity prices that allowed us to start delivering better results operationally, that could put us in a position to be more successful as a standalone entity."

Pieridae Board Chair Myron Tétreault

Fast forward to early 2022 and there is now renewed interest in our project. With rising tensions between Russia and Ukraine, the issue of security of supply has become front and centre. Pieridae could provide a solution that would allow Canada to take a leadership role in supplying much needed natural gas overseas for 20-30 years, pushing back against the threat of Russia weaponizing gas against Europe by turning off the taps at any time. That solution is in the form of a net zero emissions floating LNG facility. The potential project the company has been analyzing has a capacity of 2.4 million tonnes per annum, with natural gas needs of 400 mmcf/d, which is 5% of total German daily consumption – an amount that would make a true difference.

What we need is a commitment of support from the Government of Canada that this initiative is a national priority. If deemed so, then pipeline capacity to transport the gas must be worked out, as well as resolving emissions constraints under Nova Scotia's cap-and-trade program. Having the Mi'kmaq involved as partners so that they might share in the benefits of this project is also a priority. And above all, there will be no project unless Pieridae finds a partner as funding for an LNG initiative will not be done on the back of the company's balance sheet.

Natural gas continues to be viewed as a bridge fuel as the world continues a methodical, even-paced transition to lower carbon fuels. While the Ukraine invasion has turned energy policy on its head, the path of decreasing CO2 emissions along with a greater focus on diversity and equity in the workplace have propelled ESG, or Environmental, Social and Governance, into the spotlight in recent years. Pieridae recognized this and we were proud to release our inaugural ESG Report in 2021.

Some important steps were taken such as implementing diversity surveys, measuring and tracking emissions to understand how we can best reduce them, and structuring our committees at the Board level to break out a separate Governance and ESG Committee to give this area the focus it deserves.

We are also following through on a previous commitment to add additional, senior level bench strength in this area by hiring an ESG Director. This individual will report directly to the Chief Operating Officer and will be tasked with building a strategic partnership with the company's executive leadership team, while fulfilling the role of thought leader for ESG initiatives, performance, reporting, governance and execution.

Pieridae has a plan to achieve carbon neutrality by 2050. A lot of that is centered around carbon sequestration and methane emissions reduction. Although it is going to be challenging to meet some of the requirement's government has put in the path of industry, we intend to show the marketplace the company is serious about meeting this goal, and we will be devoting the appropriate resources to these efforts.

Our Caroline Carbon Capture Blue Power Project announced in May of 2021 could provide a long-term solution to meeting those requirements. It is quite an innovative plan where we combine large-scale carbon storage underground while producing clean power to both operate our Caroline Gas Plant and then sell the remaining clean electricity to the Alberta grid. Our goal in 2022 is to conduct an updated feasibility study for the project. If the concept makes sense, it would be a key part of our carbon management plan which we also aim to develop and deliver this year. That plan would be aligned with our ongoing ESG work.

2021 Business Developments

New Chief Operating Officer Hired

On April 1 2021, the Company hired an industry veteran with senior level experience operating complex sour gas assets as its new COO, someone well positioned to take full advantage of the opportunities Pieridae's assets offer. Professional engineer Darcy Reding brought 30+ years of experience to the role along with a proven track record. "We needed someone with a proven record of building a resource base and economically bringing on new reserves that will be critical to filling our gas plants and delivering long-term success," said Pieridae CEO Alfred Sorensen. "Darcy has previously managed a billion-dollar multi-year program to successfully grow production volumes."

Darcy has focused on ensuring our assets have operated safely, efficiently and competitively.

Building a Large-Scale Carbon Capture and Storage Project

On May 27, 2021, we announced our intent to develop the Caroline Carbon Capture Power Complex. This large-scale complex would be located at Pieridae's Caroline Gas Complex in Alberta. The planned Complex would capture and store underground up to three million tonnes of CO_2 annually from the gas processing facility, power production and third parties. That is the equivalent of taking more than 650,000 cars off the road each year. The underground depleted gas reservoir that would store the carbon has enough capacity to sequester up to 100 million tonnes of CO_2 over three-plus decades. Our goal in 2022 is to conduct an updated feasibility study for the project. If the concept makes sense, it would be a key part of our carbon management plan which we also aim to develop and deliver this year.

Planning an innovative, large-scale Carbon Capture Power Complex.

Pieridae Releases its Inaugural ESG Report

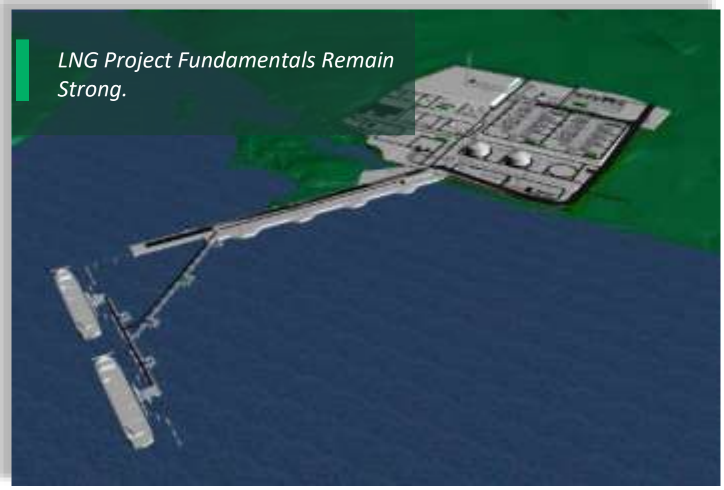
On June 22, 2021, we were excited to announce the publishing of Pieridae Energy's inaugural ESG Report! This report is the continuation of our sustainability journey to demonstrate Pieridae's commitment to achieving an authentic ESG outcome through caring deeply about what we stand for as a company, and by responding to our stakeholders' needs and concerns. "A commitment to ESG has been a big part of Pieridae Energy throughout our history," said Pieridae's Chief Executive Officer Alfred Sorensen. "It wasn't always called ESG, of course, but we have consistently built respectful relationships with Indigenous Peoples, communities and other stakeholders as well as focusing on meeting and exceeding environmental regulatory and governance standards. It's been that way from the beginning of this company, shaped by a strong framework of responsible governance."

Pieridae will engrain a robust ESG focus into our business strategy now and for years to come.

2021 BUSINESS DEVELOPMENTS

Evaluating Goldboro LNG Strategic Alternatives

On July 2, 2021, the company announced a future path for its Goldboro LNG Project. While Pieridae had made tremendous progress in advancing the Project, as of June 30, 2021, we were not been able to meet all of the key conditions necessary to make a final investment decision. It became apparent that cost pressures and time constraints due to COVID-19 made building the LNG Project impractical. We began to assess options and analyzed strategic alternatives that could make an LNG Project more compatible in the future with a changing environment.



LNG Project Fundamentals Remain Strong.

Pieridae Initiates Strategic Review Process

On July 26, 2021, Pieridae announced it had initiated a formal process to identify, examine and consider a range of strategic alternatives with a view to enhancing shareholder value. Such strategic alternatives may have included a corporate sale, merger, a sale of a material portion of Pieridae's assets or other transactions. "We are taking this step with the focus of ensuring shareholder value is maximized," said Pieridae Chief Executive Officer Alfred Sorensen. "Shareholders and the Company have invested heavily in the Goldboro LNG Project for a number of years and we have acquired and consolidated a large base of Foothills upstream assets, so it is prudent for us to look for ways to ensure an appropriate return is found for the investments made to date."

Strategic Review initiated to Enhance Shareholder Value.

2021 FINANCIAL ACCOMPLISHMENTS

Updated Credit Agreement Reached With TEC

On January 4, 2022, Pieridae announced it had reached an agreement with its senior secured lender Third Eye Capital Corporation (TEC) to extend payment of the $50 million term loan deferred fee and to amend certain other terms and covenants of the Credit Agreement first signed with TEC in October of 2019, related to the purchase of Shell's Foothills assets.

Under the updated terms of the Credit Agreement, the $50 million deferred fee is now incorporated as part of the overall loan due on October 16, 2023. However, the deferred fee will not accrue interest while outstanding. Additionally, certain other modifications to the Credit Agreement were negotiated, including the continued waiver of the requirement to hedge 60 per cent of production on an 18-month rolling basis, through the end of February 2022. This allowed Pieridae to take better advantage of strong winter commodity prices.

A Very Positive Development Financially for the Company.

2021 FINANCIAL ACCOMPLISHMENTS

Strategic Review Process Concludes

On January 24, 2022, the company announced that the strategic review process has concluded. The goal of the process was to identify, examine and consider a range of strategic alternatives with a view to enhancing shareholder value. Those strategic alternatives could have included a corporate sale, merger, a sale of a material portion of Pieridae's assets or other transactions.

Pieridae's Board of Directors authorized the creation of a special committee to review and evaluate potential strategic alternatives and transactions. Pieridae as well hired Peters & Co. to advise the Company during the strategic review process.

Ultimately, the special committee concluded that the various alternatives presented were not compelling relative to the Company's stand-alone prospects. The restructuring of Pieridae's credit agreement announced January 4, 2022 played a role in the special committee's conclusion. The full Pieridae Board supported and approved the committee's recommendation.

"I want to thank the Board's special committee and Peters & Co. for their diligence, professionalism and thoroughness working through the strategic review process over the last number of months," said Pieridae CEO Alfred Sorensen. "We are now in a position to proactively move the Company forward and will work to enhance shareholder value, having reached an agreement with our senior secured lender to both consolidate our debt and amend certain terms and covenants of our credit agreement."

Moving forward proactively.

2021 FINANCIAL RESULTS & OPERATIONS PERFORMANCE

The Company saw year-over-year growth in Adjusted Funds Flow From Operations (up 114% to $57.7 million) and a 66% increase in Net Operating income to $84.1 million. While benefiting from higher commodity prices, the Company was impacted by lower production, increased operating costs and royalties, and first-half Goldboro LNG Project costs.

Higher realized prices for natural gas, NGLs and condensate contributed significantly to higher cashflows, offset by lower production, increased operating costs and royalties largely also driven by the increase in commodity prices, and first-half costs associated with the Goldboro LNG Project.

2021 was a year of dramatic change for Pieridae, and exceptional challenges faced on a number of fronts. The events listed above impacted our business, operations, cash flows and net income (loss) during the past four quarters. Throughout these events Pieridae remained committed to and impressed by the operational resilience of our assets and our team.

Production in the fourth quarter of 2021 decreased by 8% compared to the same quarter in 2020 due to temporary shut-in of production in Central Alberta due to partner disputes, unplanned downtime at Waterton for maintenance repairs, unseasonably cold weather in December 2021, and normal production declines.

During 2021, production decreased 3% compared to 2020. The calculated 2021 decline rate in the independent reserve evaluator's year-end 2020 reserve report was 8% on a total proved plus probable basis. During 2021 the Company endeavoured to mitigate this decline through numerous optimization and maintenance activities. These relatively low-cost investments generated significant internal rates of return. Production was negatively impacted during 2021 by the major planned facility turnarounds at Jumping Pound and Caroline in April and September respectively, mitigated to the extent possible by volume re-direction to third-party facilities during the turnarounds. During 2021, Pieridae also increased production from minor working interest acquisitions in the Waterton and Jumping Pound areas.

In 2022, Pieridae is guiding to increased NOI primarily due to higher anticipated commodity prices as well as continued optimization of our assets, higher third-party processing fees, increased overall volumes and cost saving initiatives. Pieridae anticipates NOI in the range of $100-$130 million and a higher implied operating netback per boe.

Annual Highlights

($ 000s unless otherwise noted)	2021	2020	2019
Production			
Natural gas (mcf/day)	199,793	201,040	121,263
Condensate (bbl/day)	2,877	3,020	807
NGLs (bbl/day)	4,386	5,473	1,379
Sulphur (ton/day)	1,530	1,985	410
Total production (boe/d) (1)	40,562	42,000	22,397
Reserves			
Net proved plus probable (“2P”) reserves (2)	1,002,134	976,147	1,062,453
Financial			
Net loss	(39,790)	(100,693)	(71,573)
Net loss per share basic and diluted	(0.25)	(0.64)	(0.73)
Net operating income (3)	84,085	50,723	25,001
Cashflow provided by (used in) operating activities	51,117	2,234	(51,772)
Adjusted funds flow from operations (3)	57,692	26,866	608
Total assets	622,540	612,651	602,474
Working capital deficit	(87,666)	(19,615)	19,105
Capital expenditures	34,972	17,243	169,167
Development expenses	4,750	18,742	9,150
Long-term debt(4)	231,581	219,555	202,913

(1) Total production excludes sulphur.
(2) Estimated pre-tax net present value of discounted cash flows from reserves using a 10% discount rate.
(3) Refer to the “Non-GAAP measures” on page 20 of the Company’s most recent MD&A.
(4) Long-term debt includes current and long-term portion and reflects accretion of the $50 million deferred fee over the four-year term of the loan; refer to note 12 of the consolidated financial statements.

OUR RESPONSIBILITY

An ESG Framework Must Be Authentic; Built on Trust and Transparency

In 2021, we released our inaugural ESG Report. It was the beginning of a journey to demonstrate that we are committed to achieving an authentic ESG outcome through caring deeply about what we stand for as a company, and by responding to our stakeholders’ needs and concerns. By delivering on this responsibility and with careful consideration of the impacts our decisions have, Pieridae will engrain a robust ESG focus into our business strategy now and for years to come.

One of the ways we plan to do this is to recruit a new senior leader whose sole role would be to deliver ESG strategy and reporting, internally and externally. We are currently in the midst of a search for that individual, someone with a passion for sustainability and we remain confident the successful candidate will position us well in developing our Environmental, Social and Governance goals and priorities for year two of our ESG journey and beyond.

At a leadership level, we have adopted a new governance and reporting structure that puts ESG at the heart of business planning. Pieridae’s Board, through our new Governance and ESG Committee established last year, will have oversight of all ESG strategies and programs through the Executive Leadership Team.

Living Our Values:
Past, Present and Future

ESG – CREATING A FOUNDATION

From our CEO's industry-leading First Nations consultation with the Haisla in British Columbia in the early 2000's to our signed Benefits Agreement with the Nova Scotia Mi'kmaq, the core elements of Environmental, Social and Governance has long been embraced by Pieridae.

We remain focused on leading where it makes the most sense to create the social and business values that are necessary to participate in an evolving energy future.

With the development and delivery of our inaugural ESG Report last year, conducted a thorough ESG baseline assessment in order to produce an initial ESG materiality study.

The objectives of the assessment were to:

Communicate a clearer vision of Pieridae's ESG strategy including its most material ESG issues.

Articulate specific roles, responsibilities and accountabilities for ESG strategy.

Strengthen the link between ESG strategy at the corporate level and ESG initiatives at the operational level.

Prepare a strategy for ESG reporting.

Environmental

Pieridae is committed to look for ways to lower our emissions and reduce our environmental footprint as we develop the company's resources responsibly, and participate in the journey toward a sustainable energy future.

We are also committed to achieving net-zero emissions by 2050, with plans to use carbon sequestration and other technologies, as part of the global transition to a low-carbon energy economy.

The materiality assessment found Pieridae demonstrates a strong commitment to maintaining and improving its high standard of environmental performance (e.g., carbon emissions, water management, spill management).

The company's corporate goal of safeguarding our environment and surrounding communities supports Pieridae's Health, safety and Environment Policy as we have a responsibility toward people and the environment. It's a business imperative, and our investors and stakeholders expect it.

Pieridae's asset acquisitions since 2014 brought with it a strong commitment to sustainability regulatory compliance monitoring and reporting. All assets in Alberta and British Columbia operate with emissions caps, carbon pricing and stringent environmental standards to ensure that resources are developed in an environmentally prudent manner.

Climate and Air Emissions

Direct and indirect emissions into the atmosphere (Scope 1 & Scope 2) are something all energy companies must deal with. At Pieridae, we streamlined our asset portfolio in 2020 and improved our energy management. Going forward, we plan to establish a verified baseline for Scope 1 and Scope 2 emissions from all our Canadian assets.

We will also look at Scope 3 emissions which are all indirect emissions occurring along Pieridae's value chain including both upstream and downstream. These emissions are beyond Pieridae's direct control but opportunities may exist to work with other companies and analyze ways to reduce them.

> *Pieridae is focused on evaluating our carbon-related risks and opportunities to set future goals and inform the company's business planning.*

Our Energy Management Plan

In late 2019, Pieridae acquired Shell's Foothills assets. In 2020, an initiative was kicked off to create a consolidated Energy Management Plan (EMP) for these and all of the company's assets.

We are focused on the evaluation of carbon-related risks and opportunities to set future goals and enable informed business planning. A multi-year program is underway to develop and advance the EMP, which includes the continuation of frontline incentivized programs for emission reduction, and repurposing and optimizing reservoirs and equipment to reduce our carbon footprint.

Priorities of our EMP

- Maintaining a focus on achieving asset level targets
- Implementing projects to lower our GHG emissions
- Securing Government grants and funding to help achieve our goals
- Supporting advocacy for fair carbon taxation

Land and Reclamation

Pieridae will continuously strive to strike a balance between land development, reclamation and biodiversity requirements to ensure we minimize the negative impacts and optimize the positive. We will support initiatives that improve our understanding of biodiversity in the areas where we operate — all with the goal of minimizing our environmental footprint.

When Pieridae decides to retire assets, we strive to accelerate restoration of the land back to its original state. Our restoration work in 2020-2021 included the retirement of seven wells in British Columbia, three wells in Saskatchewan, and plans for two more wells in Alberta. Site assessments, monitoring and reclamation/remediation activities are scaling up, with plans in place for projects that cover over 80 sites.

Water Management

Water is a precious resource we are committed to using responsibly. Fresh water is used in our operations and asset development. Like any scarce resource, fresh water should be optimized for our needs and the needs of others. We strive for reductions beyond regulatory requirements as we work to minimize our water use.

Pieridae continuously seeks new ways to lower our water usage, increase our return, and recycle as much water as economically feasible. Most of the water the company uses is for cooling which is then returned to the environment as steam and, ultimately, makes its way back to earth as clean water. Ultimately, our overriding goal is to protect people's health and the quality of the natural environment by conserving water resources and preventing adverse impacts.

We strive for reductions beyond regulatory requirements as we work to minimize our water use.

Social

We are committed to building a 'One Pieridae' culture – leading through our shared values and connecting with employees to communicate our shared strategy and ensure they are valued, engaged and energized.

With such a diverse mix of cultures and people coming together quickly from different companies in recent years to form the present-day Pieridae, we are committed to defining our identity, our values and our culture.

Pieridae completed its first Employee Engagement Survey in 2020 and promised to do this annually. The Company's second survey is in the books and will be used to further enhance our culture. As our Board Chair and CEO said in their letter to shareholders, bringing collaboration back into the office after two years of working apart will help 'energize' a joint company focus and direction.

COVID has made things challenging 'socially' the past two years but the company remains committed to helping staff learn and grow, seeing the value of their input and providing everyone with clear opportunities for progress and development.

Indigenous Rights - Taking A Longer View

Pieridae Energy is committed to growing and honouring relationships with the Indigenous Peoples of Canada based on the principles of trust, mutual respect, fairness, openness, transparency and reconciliation.

We know that over the last few years, Canada has begun a reconciliation process to understand the true history of Indigenous Peoples. It is extremely important to build awareness of reconciliation, given that major developments, including the potential for an LNG project in Nova Scotia, and most of the company's gas assets in Alberta are on or near traditional Indigenous territory.

A process was formally started internally to make sure everyone at Pieridae, from field workers to the Board, has awareness of Indigenous Rights. This meant presenting both a historical and a cultural understanding and working hard to dispel myths and misconceptions.

Pieridae will further develop its procurement framework to appropriately involve Indigenous businesses. The company has set a goal to 'jointly create an internal strategy on Indigenous contracting opportunities'. We have also started including submission requirements and questions in its Request for Proposals, asking firms to comment on their Indigenous content, with a specific query that states: "*Does your company have an Indigenous Peoples hiring policy?"*.

Community Involvement & Investment

Our focus of building trust and respect with Indigenous Peoples goes hand-in-hand with how we endeavour to work with the stakeholders Pieridae interacts with on a daily basis.

The company remains committed to being a good neighbour, working with communities where we live and operate, with a strong focus on maintaining the trust and respect that has been built up over the years. Giving back demonstrates you are committed to being part of a community.

Being forthright and upfront with landowners and stakeholders who may be impacted by our operations is an absolute: we will not compromise. Pieridae and its team will continue to participate in ongoing stakeholder engagement by working with individual landowners and respected community groups.

We are committed to being a good neighbour through constructive community and stakeholder engagement and support in the communities where we live and operate.

Health & Safety

Pieridae is committed to meeting our HSE Policy and Path to Zero goals; advancement of our safety culture; progressing safety competence; and upholding our reputation.

Pieridae has a 'Choose Safety' philosophy which means safety is a choice every day. This way of thinking leads us to create and sustain a culture that drives our commitment of no harm to people and protection for the environment. Through an engaged workforce where people feel respected, valued and cared for, we will improve our performance, increase our engagement and reduce injuries.

"Choose Safety"
– because safety is a choice every day.

Pieridae strives to uphold our reputation by being a leader in HSE compliance, and by reporting issues and near misses, and we encourage our people to do the same.

The company's goal is to prevent any unplanned releases which could result in a major incident.

Emergency Response Planning

As Pieridae strives to meet our obligations to safeguard personnel, communities and the environment, we will always remain focused on Emergency Preparedness and Response (ERP). Our ERP plans for all operations are in place and updated regularly.

Each plan outlines what we will do in case of a gas release, fire, explosion, hazardous material spill, transportation accident or other potential emergency, in conjunction with local emergency services.

We will also maintain a high level of emergency preparedness through implementation of simulated response training.

> *It is critical to protect our people and assets, and to prevent impacts to the environment and local communities.*

Governance

We are committed to building a diverse culture and workplace through a strong and sustainable governance framework. This is a commitment that must follow regulatory standards, with the goal of strengthening the Board's and management's accountability, ultimately creating superior performance and building trust.

Pieridae offered a tangible commitment to strong governance in 2021 by creating an Governance & ESG Committee to support the company's ESG strategy to ensure Pieridae remains focused on its material ESG risks and opportunities.

We mentioned earlier that Pieridae has completed its second-ever internal diversity survey. Pieridae is committed to diversity, equity and inclusion and its aspirations and approach to increasing diversity and inclusion within the organization.

The company knows it needs to do more to increase the diversity of its vice-presidents and board members. To that end, a new diversity and inclusion policy was approved by ther Board midway through 2021. This policy states, among other things, that we value the benefits that diversity can bring to Pieridae's Board, senior leadership team and employee group. These benefits include the promotion of differing perspectives and the broadening of ideas while improving oversight, decision-making and governance.

As part of its new policy, the company aspires to increase the diversity on its Board, and within the organization generally, and will be taking appropriate action to achieve that objective.

When it comes to equity, we recognize this needs to be linked with a culture of inclusion.

While Pieridae has taken initial steps, more discussion needs to occur, including exploring ways to analyze and then elevate anti-racism and equity.

Pieridae is committed to diversity, equity and inclusion and its aspirations and approach to increasing diversity and inclusion within the organization.

Managing Risk

Pieridae has a wide variety of policies designed to both manage risk, govern sustainability and ensure proper governance:

- *Code of Ethical Conduct Policy;*
- *Disclosure, Trading and Anti-Corruption Policies;*
- *Health, Safety and Environment Policy;*
- *Diversity & Inclusion Policy;*
- *Prevention of Harassment Policies; and*
- *Whistleblower Policy.*

The company is taking further actions to reduce risk, some of which include:

- *Yearly Mandatory CyberSecurity training of all Pieridae users, employees or contractors;*

- *Pieridae has implemented Multi-Factor Authentication (MFA) in 2021 to increase security and safeguard unauthorized access to the system via a second form or authorization.*

The Path Forward

As we look to the remainder of 2022, energy continues to be an important part of the Canadian story. Canadian exports remain driven by energy which plays a big part in our ability to finance our nation's social programs. We remain bullish that commodity prices will remain robust, which is good news for Pieridae.

Our strategic plan and budget for 2022 are absolutely focused on supporting our upstream business, refinancing our debt and delivering growth on the asset base we have. We must operate as efficiently as possible and increase production in order to extend the life of our facilities and lower operating costs, leaning on a revived 'performance culture' to make this all happen.

We know we can provide the energy to fuel people's lives during the energy transition and our industry is a fundamental core component of that transition. Access to cheap, low-cost energy is one of the things that has a dramatically positive impact on the health and wealth of countries and their 'security' in the world where a global tyrant can upend the delicate balance at any time. We must work to ensure this never happens again.

Pieridae would not have achieved what it did in 2021 without the extraordinary efforts of our staff, management team and directors. We thank them for their dedication and loyalty during a tumultuous year. We also thank our shareholders and other stakeholders for their support of and belief in Pieridae.

"*Myron Tétreault*"

Myron Tétreault
Chair of the Board of Directors

"*Alfred Sorensen*"

Alfred Sorensen
Chief Executive Officer

Management’s Discussion and Analysis

This Management’s Discussion and Analysis ("MD&A") of Pieridae Energy Limited ("Pieridae", "we", "our" or the "Company") provides a review by management of the financial performance and position of the Company, as well as the trends and external factors which may impact our prospects. This MD&A has been prepared as of March 23, 2022, and should be read in conjunction with the Company’s audited consolidated financial statements and the accompanying notes for the years ended December 31, 2021, and 2020 (the “consolidated financial statements”). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), sometimes referred to in this MD&A as Generally Accepted Accounting Principles (“GAAP”) as issued by the International Accounting Standards Board (“IASB”). Pieridae’s reporting currency is the Canadian dollar. All amounts are presented in Canadian dollars, unless otherwise stated.

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

Throughout this MD&A, condensate is a natural gas liquid as defined by National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*. Natural gas liquids ("NGLs") comprise all NGLs as defined by NI 51-101 other than condensate, which is disclosed separately. Reference is made to crude oil and natural gas in common units called barrel of oil equivalent (“boe"). A boe is derived by converting six thousand cubic feet ("mcf") of natural gas to one barrel ("bbl") of crude oil (6 mcf:1 bbl). This conversion may be misleading, particularly if used in isolation, since the 6 mcf:1 bbl ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In comparing the value ratio using current crude oil prices relative to natural gas prices, the 6 mcf:1 bbl conversion ratio may be misleading as an indication of value.

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

SPECIAL NOTE REGARDING NON-GAAP FINANCIAL MEASURES

This MD&A includes references to financial measures such as net operating income ("NOI"), operating netback or net back, and adjusted funds flow from operations ("AFFO"). The Company feels that these financial measures are important to the understanding of its business activities. These financial measures are not defined by IFRS and therefore are referred to as non-GAAP measures. The non-GAAP measures used by the Company may not be comparable to similar measures presented by other companies. The Company uses these non-GAAP measures to evaluate its performance. The non-GAAP measures should not be considered an alternative to, or more meaningful than, measures determined in accordance with IFRS, as an indication of the Company’s performance. The non-GAAP measures are reconciled to their closest GAAP measure on pages 19 and 20 of this MD&A.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain of the statements contained herein including, without limitation, management plans and assessments of future plans and operations, Pieridae Energy Limited’s expected 2021 capital budget, Pieridae's future business plan and strategy, Pieridae's criteria for evaluating acquisitions and other opportunities, Pieridae's intentions with respect to future acquisitions and other opportunities, plans and timing for development of undeveloped and probable resources, timing of when the Company may be taxable, estimated abandonment and reclamation costs, plans regarding hedging, wells to be drilled, the weighting of commodity expenses, expected production and performance of oil and natural gas properties, results and timing of projects, access to adequate pipeline capacity and third-party infrastructure, growth expectations, supply and demand for oil, natural gas liquids, and natural gas, industry conditions, government regulations and regimes, and capital expenditures and the nature of capital expenditures and the timing and method of financing thereof, may constitute "forward-looking statements" or "forward-looking information" within the meaning of Applicable Securities Laws (as defined herein) (collectively "forward-looking statements"). Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", "shall", "estimate", "expect", "propose", "might", "project", "predict", "forecast", “target”, “goal” and similar expressions may be used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management.

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

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

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

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

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

DEFINITIONS AND ABBREVIATIONS

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

PIERIDAE'S OBJECTIVES AND STRATEGY

Pieridae is a Canadian energy producing company headquartered in Calgary, Alberta. Through a number of corporate and asset acquisitions, we have grown from inception to managing a significant upstream and midstream portfolio concentrated in the Canadian Foothills, producing conventional natural gas, NGLs, condensate and sulphur.

Since 2011, Pieridae has been focused on becoming the first Canadian owned liquefied natural gas ("LNG") producer to integrate (a) upstream natural gas resource development and production from it's western Canadian asset base (the "Upstream Segment") and (b) midstream activities consisting primarily of raw natural gas processing and transportation of the treated natural gas by pipeline to the site of the proposed Goldboro LNG Facility where further processing and liquification is proposed to produce LNG for sale to customers for export (the "Corporate and LNG Segment"). The Corporate and LNG segment together with the Upstream Segment form the "Goldboro LNG Project" or the "Project".

In July 2021, the Company publicly announced that after many years of effort and progress toward realizing its strategy of becoming an integrated LNG entity, we were not able to meet the key conditions necessary to make a positive final investment decision ("FID") on the Project in the scope and configuration previously contemplated. As a result, the Project was suspended.

In late July 2021, as a result of the suspension of the Goldboro LNG Project and approaching debt payment obligations, the Company initiated a formal strategic review process under the supervision of a special committee of the Board of Directors (the "Board") and collaborated with a leading financial advisory firm to identify, examine, and consider a range of strategic alternatives. Such strategic alternatives may have included, but were not limited to, a corporate sale, merger, a sale of a material portion of Pieridae's assets or other transactions, or a combination thereof (the "Strategic Review"). Management and the Board conducted a rigorous process; however, the Strategic Review concluded without a material transaction, as was announced on January 24, 2022. A number of factors contributed to the conclusion of the process including a negotiated amendment with our senior secured lender, Third Eye Capital ("TEC") to the terms of the outstanding credit facility (refer to note 12 of the consolidated financial statements) and the improving outlook for oil and natural gas market fundamentals. Considering these factors, Management and the special committee of the Board determined that the various alternatives presented were not sufficiently compelling relative to the Company's standalone prospects.

Following conclusion of the Strategic Review, Management and the Board have reexamined Pieridae's strategy. During the past year Pieridae has transformed from being LNG project-focused to primarily focusing on sustaining and growing its upstream exploration and production ("E&P") business, while maintaining a compelling LNG project option. Management is excited about the current and future growth prospects of Pieridae's existing asset base in the Canadian Foothills and believes it is prudent to pivot toward growing a sustainable and profitable conventional Foothills oil and natural gas business. To do so, we will focus on the following core pillars of our evolving corporate strategy:

- Simplify and focus Pieridae's producing asset base through smart asset rationalization and commercial optimization initiatives
- Streamline and reduce operating and overhead costs and actively mitigate inflationary pressures across the business
- Develop and execute a carbon management plan which is aligned to our environmental, social and governance ("ESG") vision
- Prove our Foothills resource development plan by successfully investing in our identified drilling opportunities
- Reduce cost of capital by pursuing debt refinancing opportunities, balance capital allocation between drilling investment and debt reduction

Management continues to take a strategic approach to growth and capital allocation to fully utilize the advantages of the long-term nature of Pieridae's low-decline reserve base and supporting infrastructure, and to focus on creating long lasting shareholder value. Operational discipline, safe, effective, and efficient operations, community and Indigenous partnerships, cost control, and pursuing opportunities to further embed ESG considerations into our corporate strategy are fundamental to the Company's strategic vision, in addition to seeking opportunities to further integrate ESG considerations into our corporate strategy.

ANNUAL HIGHLIGHTS

($ 000s unless otherwise noted)	2021	2020	2019
Production			
Natural gas (mcf/day)	199,793	201,040	121,263
Condensate (bbl/day)	2,877	3,020	807
NGLs (bbl/day)	4,386	5,473	1,379
Sulphur (ton/day)	1,530	1,985	410
Total production (boe/d) (1)	40,562	42,000	22,397
Reserves			
Net proved plus probable (“2P”) reserves NPV10 (2)	1,002,134	976,147	1,062,453
Financial			
Net loss	(39,790)	(100,693)	(71,573)
Net loss per share basic and diluted	(0.25)	(0.64)	(0.73)
Net operating income (3)	84,085	50,723	25,001
Cashflow provided by (used in) operating activities	51,117	2,234	(51,772)
Adjusted funds flow from operations (3)	57,692	26,866	608
Total assets	622,540	612,651	602,474
Working capital deficit	(87,666)	(19,615)	19,105
Capital expenditures	34,972	17,243	169,167
Development expenses	4,750	18,742	9,150
Long-term debt (4)	231,581	219,555	202,913

(5) Total production excludes sulphur

(6) Estimated pre-tax net present value of discounted cash flows from reserves using a 10% discount rate

(7) Refer to the “non-GAAP measures” section of this MD&A.

(8) Long-term debt includes current and long-term portion and reflects accretion of the $50 million deferred fee over the four-year term of the loan; refer to note 12 of the consolidated financial statements.

QUARTERLY HIGHLIGHTS

The tables below provide a summary of the consolidated financial results for the quarters of 2020 and 2021:

	2021				2020			
($ 000s unless otherwise noted)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production								
Natural gas (mcf/day)	198,596	191,439	194,232	215,179	212,220	184,080	208,689	199,234
Condensate (bbl/day)	2,851	2,555	2,950	3,158	3,259	2,807	3,166	2,850
NGLs (bbl/day)	5,354	4,133	3,083	4,975	6,171	4,722	5,843	5,156
Sulphur (ton/day)	1,185	1,518	1,710	1,713	1,829	2,232	1,970	1,906
Total production (boe/d)	41,304	38,595	38,404	43,997	44,800	38,209	43,791	41,211
Financial								
Realized natural gas price ($/mcf)	3.67	2.70	2.59	2.63	2.16	1.70	1.87	2.25
Benchmark natural gas price ($/mcf)	4.69	3.59	3.11	3.16	2.67	2.14	1.98	1.94
Realized condensate price ($/bbl)	69.71	65.33	68.08	58.40	53.48	44.67	39.94	67.74
Benchmark condensate price ($/bbl)	100.10	70.25	64.82	59.05	56.01	38.40	35.83	46.83
Net income (loss)	4,661	(14,846)	(10,058)	(19,547)	(45,968)	(29,845)	(13,396)	(11,484)
Net income (loss) per share, basic	0.03	(0.09)	(0.06)	(0.12)	(0.29)	(0.19)	(0.09)	(0.07)
Net income (loss) per share, diluted	0.03	(0.09)	(0.06)	(0.12)	(0.29)	(0.19)	(0.09)	(0.07)
Net operating income (loss) (1)	30,845	17,920	14,444	20,876	12,829	(646)	19,301	19,239
Cashflow provided by (used in) operating activities	21,139	6,885	12,093	11,000	2,362	(4,541)	(2,013)	6,426
Adjusted funds flow from operations (1)	23,317	10,981	8,516	14,878	8,535	(6,779)	12,466	12,644
Total assets	622,540	560,782	575,690	557,696	612,651	583,942	588,415	609,437
Working capital (deficit) surplus	(87,665)	(52,534)	(47,862)	(28,314)	(19,615)	(9,164)	15,109	15,596
Capital expenditures	1,493	9,852	17,959	5,668	8,926	6,033	264	2,020
Development expenses	225	783	(4,862)	8,604	8,682	2,472	4,129	3,459

(1) Refer to the “non-GAAP measures” section of this MD&A.

2021 OPERATIONAL AND FINANCIAL HIGHLIGHTS

During 2021, the Company generated cashflow from operating activities of $51.1 million, and AFFO of $57.7 million compared to $2.2 million and $26.9 million respectively during 2020. Higher realized prices for natural gas, NGLs and condensate contributed significantly to higher cashflows, offset by marginally lower production increased royalties largely also driven by the increase in commodity prices, and first-half development costs associated with the Goldboro LNG Project.

2021 was a year of dramatic change for Pieridae, with exceptional challenges faced on a number of fronts. The following events impacted our business, operations, cash flows and net income (loss) during the past four quarters. Throughout these events Pieridae remained committed to and impressed by the operational resilience of our assets and our team.

First quarter of 2021

- Production averaged 43,997 boe/day and average realized natural gas price was $2.63/mcf.
- Net loss was impacted by $8.6 million of development expenses incurred on advancing the Goldboro LNG Project.
- During the quarter Pieridae issued 5,000,000 warrants at an exercise price of $0.70 per warrant to its lender as consideration for certain amendments to our credit facility; refer to notes 12 and 14 of the consolidated financial statements.

Second quarter of 2021

- Production averaged 38,404 boe/day and average realized natural gas price was $2.59/mcf.
- Primary cause of the production decline as compared to the first quarter was the successful completion of a major sustaining capital turnaround (“TAR”) at Pieridae’s wholly owned Jumping Pound gas processing facility (Jumping Pound"), a 36-day two-phase project in which the first phase was completed during the third quarter of 2020. Totalling $19.4 million over both phases, this was the largest capital project conducted in Pieridae’s history.
- In April, Pieridae announced the appointment of Darcy Reding as Chief Operating Officer.
- In June, Pieridae released it’s inaugural ESG report, which can be found on the Company’ website.

Third quarter of 2021

- Production averaged 38,595 boe/day and average realized natural gas price was $2.70/mcf.
- Shortly following June 30 Pieridae announced it had been unable to meet the conditions necessary to declare the Goldboro LNG Project FID, and certain associated liabilities were reversed, resulting in negative development expense of $4.9 million.
- Later in July, the Strategic Review was initiated, as previously discussed.
- A second major TAR was completed at Pieridae’s operated Caroline gas processing facility (“Caroline”), requiring total net expenditure of $7.9 million. Previously delayed by the impacts of the COVID-19 pandemic, the critical capital maintenance activities required at Caroline could no longer be deferred.
- Scheduled third party pipeline maintenance required the Company’s Waterton gas processing facility (“Waterton”) to be down for eight days, during which certain maintenance projects were successfully completed.

Fourth quarter of 2021

- Production strengthened to 41,304 boe/day on return of all Pieridae’s gas processing facilities to full operation and average realized natural gas price was $3.67/mcf.
- In December, Pieridae and its lender came to an agreement which, among other things, allowed for the deferral of certain debt obligations from 2021 to October 2023; refer to note 12 of the consolidated financial statements.

Throughout the significant capital projects completed in 2021, Pieridae successfully maintained its focus on safety, as evidenced by the total reportable injury frequency (“TRIF”) of 0.26 as compared to an annual target of 0.34 and 2020 annual TRIF of 0.34.

The Company continues to execute a commodity risk management program governed by its hedge policy. Over the past 12 months, our debt lender temporarily waived and/or amended their requirement to have 60% of forecast base production hedged on an 18-month rolling average basis, in order to allow the Company to take advantage of strengthening natural gas and NGL prices, and to recognize the credit implications of hedging into a rising commodity price market. During 2021 the Company’s primary hedging tools were physical fixed price forward sales contracts. As at December 31, 2021, 56,900 GJ/d of fixed price natural gas contracts were in place at a weighted-average price of $2.50/GJ over a term of 15 months, as further described in note 19 of the consolidated financial statements. As of March 23, 2022, physical fixed-price forward sales contract representing 92,007 GJ/d of natural gas hedged at an average price of $2.92/GJ for 2022 and 17,500 GJ/d for Q1 2023 at $2.88/GJ are in place. In addition, condensate hedges (C$WTI basis) averaging 659 bbl/d for 2022 at an average price of C$107.98/bbl are in place.

OUTLOOK

Pieridae's near-term priority is to strengthen its balance sheet through sustaining production, rigorous cost control across its operations and administration, and execution of accretive non-core asset dispositions and related commercial optimization activities. Execution of a drilling program in the second half of 2022 is planned and will be approved upon achievement of certain balance sheet and capital allocation metrics.

Pieridae's Board of Directors approved our 2022 budget in November 2021. As of the date of this MD&A Pieridae's 2022 outlook is as follows:

($ 000s unless otherwise noted)	2021 Actual Results	2022 Guidance
Total production (boe/d)	40,562	39,000 – 42,000
Net operating income [1][2]	84,085	100,000 – 130,000
Implied Operating Netback ($/boe) [2]	5.68	7.02 – 8.48
Sustaining capital expenditures [3]	26,488	17,000 – 22,000
Development capital expenditures [4]	7,212	17,000 – 25,000

[1] Refer to the "non-GAAP measures" section of this MD&A.
[2] 2022 outlook assumes average 2022 AECO price of $3.83/mcf and average 2022 WTI price of USD$80.28/bbl and accounts for fixed price forward commodity sales contracts as of March 23, 2022
[3] Comprised of facility maintenance and turnaround capital expenditures
[4] Comprised of seismic, development and land capital expenditures

SEGMENTED DISCLOSURE

Pieridae reports business results in two segments: Upstream and LNG.

UPSTREAM SEGMENT

The upstream segment is primarily comprised of the activities of Pieridae's wholly owned subsidiary Pieridae Alberta Production Ltd, which owns Pieridae's petroleum and natural gas production operations and properties in Western Canada; refer to note 6 of the consolidated financial statements. Upstream is currently the only segment generating operating revenues.

Net Operating Income

	Three months ended December 31			Year ended December 31		
($ 000s)	2021	2020	% Change	2021	2020	% Change
Total revenue	107,803	77,009	40	353,210	279,482	26
Royalties	(17,687)	(4,402)	302	(31,405)	(9,609)	227
Operating	(53,862)	(55,485)	(3)	(218,631)	(203,432)	7
Transportation	(5,409)	(4,293)	26	(19,089)	(15,718)	21
Net Operating Income [1]	**30,845**	**12,829**	**140**	**84,085**	**42,000**	**66**

[1] Refer to the "non-GAAP measures" section of this MD&A.

Netback Per Boe

	Three months ended December 31			Year ended December 31		
	2021	2020	% Change	2021	2020	% Change
Total revenue	28.37	18.69	52	23.86	18.19	32
Royalties	(4.65)	(1.07)	336	(2.12)	(0.63)	239
Operating	(14.17)	(13.46)	5	(14.77)	(13.23)	12
Transportation	(1.42)	(1.04)	37	(1.29)	(1.02)	26
Netback ($/boe) [1]	**8.13**	**3.12**	**161**	**5.68**	**3.31**	**72**

[1] Refer to the "non-GAAP measures" section of this MD&A.

Net Operating Income Sensitivity Analysis

	2021 Actual [1]	%Change	Impact on Net Operating Income	
			Impact *($000)*	Impact %
Business Environment [1] [2]				
WTI price (US$/bbl) [3]	68.01	10%	6,682	7.9%
AECO price ($/mcf)	3.63	10%	5,560	6.6%
Sulphur price ($/ton)	182.74	10%	1,101	1.3%
US$/C$ exchange rate [4]	0.80	1%	662	0.8%
Operational [1] [5]				
NGL & condensate production (bbl/d)	7,263	10%	5,234	6.2%
Natural gas production (mcf/d)	199,793	10%	3,672	4.4%
Sulphur production (ton/d)	1,185	10%	1,101	1.3%
Royalty burden	8.89%	1%	3,532	4.2%
Operating expense ($/boe)	14.77	1%	2,186	2.6%

[1] Calculations are performed independently and may not be indicative of actual results that would occur when multiple variables change simultaneously.
[2] The indicative impact on net operating income would only be applicable within a limited range of these amounts as royalty burden is held constant.
[3] Includes the impact of WTI price on NGL (C2, C3, C4) and condensate (C5) prices assuming a correlation to US$WTI
[4] Includes the impact of foreign exchange on NGL and Condensate prices assuming a correlation to US$WTI
[5] Operational assumptions are based upon the results for the year ended December 31, 2021, and the calculated impact on Net operating income would only be applicable within a limited range of these amounts.

Production

	Three months ended December 31			Year ended December 31		
	2021	2020	% Change	2021	2020	% Change
Natural gas (mcf/day)	198,596	212,220	(6)	199,793	201,040	(1)
Condensate (bbl/day)	2,851	3,259	(13)	2,877	3,020	(5)
NGLs (bbl/day)	5,354	6,171	(13)	4,386	5,473	(20)
Sulphur (ton/day) [1]	1,185	1,829	(35)	1,530	1,985	(23)
Total production (boe/day)	**41,304**	**44,800**	**(8)**	**40,562**	**42,000**	**(3)**

[1] Total production excludes sulphur

Production in the fourth quarter of 2021 decreased 8% compared to the same quarter in 2020 due to temporary shut-in of production in Central Alberta due to partner disputes, unplanned downtime at Waterton for maintenance repairs, unseasonably cold weather in December 2021, and normal production declines.

During 2021, production decreased 3% compared to 2020. The calculated 2021 decline rate in independent reserve evaluator's year-end 2020 reserve report was 8% of a total proved plus probable basis. During 2021 the Company endeavoured to mitigate this decline through numerous optimization and maintenance activities. These low-cost investments generated significant internal rates of return. Production was negatively impacted during 2021 by the major planned facility turnarounds at Jumping Pound and Caroline in April and September respectively, mitigated to the extent possible by volume re-direction to third-party facilities during the turnarounds. During 2021 Pieridae also increased production from minor working interest acquisitions in the Waterton and Jumping Pound areas.

Production By Area

The following tables summarizes the Company's production by core area for the three months ended December 31, 2021, and 2020:

	Three months ended December 31, 2021				
	Total (boe/d)	Natural Gas (mcf/d)	Condensate (bbl/d)	NGLs (bbl/d)	Sulphur (ton/d)
Waterton	10,952	42,945	1,353	2,442	688
Jumping Pound	8,750	39,900	574	1,526	238
Central Alberta Foothills	16,793	87,341	855	1,381	249
Northern Alberta Foothills	2,638	15,726	12	5	10
Northeast BC	2,171	12,684	57	-	-
Total	**41,304**	**198,596**	**2,851**	**5,354**	**1,185**

	Three months ended December 31, 2020				
	Total (boe/d)	Natural Gas (mcf/d)	Condensate (bbl/d)	NGLs (bbl/d)	Sulphur (ton/d)
Waterton	12,110	46,322	1,638	2,752	710
Jumping Pound	8,985	40,180	578	1,711	314
Central Alberta Foothills	19,122	98,445	1,011	1,702	797
Northern Alberta Foothills	3,638	21,745	8	6	8
Northeast BC	945	5,528	24	-	-
Total	**44,800**	**212,200**	**3,259**	**6,171**	**1,829**

The following tables summarizes the Company's production by core area for the years ended December 31, 2021, and 2020:

	Year ended December 31, 2021				
	Total (boe/d)	Natural Gas (mcf/d)	Condensate (bbl/d)	NGLs (bbl/d)	Sulphur (ton/d)
Waterton	11,057	45,192	1,441	2,083	673
Jumping Pound	7,358	35,224	510	977	194
Central Alberta Foothills	17,136	89,684	869	1,320	653
Northern Alberta Foothills	2,722	16,241	10	6	10
Northeast BC	2,289	13,452	47	-	-
Total	**40,562**	**199,793**	**2,877**	**4,386**	**1,530**

	Year ended December 31, 2020				
	Total (boe/d)	Natural Gas (mcf/d)	Condensate (bbl/d)	NGLs (bbl/d)	Sulphur (ton/d)
Waterton	10,124	40,462	1,388	1,992	710
Jumping Pound	8,782	39,317	544	1,685	180
Central Alberta Foothills	18,448	93,613	1,056	1,791	1,087
Northern Alberta Foothills	3,514	21,000	7	5	8
Northeast BC	1,133	6,648	25	-	-
Total	**42,000**	**201,040**	**3,020**	**5,473**	**1,985**

RESERVES

Deloitte Touche Tohmatsu Limited ("Deloitte"), Pieridae's independent, qualified reserves evaluator, performed reserves evaluations of the Company's assets as at December 31, 2021, and December 31, 2020. The following table summarizes Pieridae's reserves based on the Deloitte reserves report:

	Year ended December 31 MMboe			Year ended December 31 $000, NPV10[1]		
	2021	2020	% Change	2021	2020	% Change
Reserves Category [2]						
Net proved developed producing ("PDP") reserves	131.3	127.7	3	427,675	505,243	(15)
Net proved ("1P") reserves	202.6	175.8	15	752,202	718,495	5
Net proved plus probable ("2P") reserves	269.2	238.8	13	1,002,134	976,147	3

[1] Estimated pre-tax net present value of discounted cash flows from reserves using a 10% discount rate.

[2] Net reserves reflect working interest share of the asset prior to the deduction of royalties

	Year ended December 31		
	2021	2020	% Change
Reserve replacement ratio ("2P") reserves	9%	44%	(80)
Reserve life index ("2P") reserves	17.7	15.6	13

Pieridae's net PDP reserve volumes at December 31, 2021, are 131.3 MMboe, an increase of 3% year over year. Economic factors, led by price forecast increases partially offset by higher operating and capital maintenance assumptions, contributed 12.4 MMboe, resource acquisitions contributed 1.3 MMboe and technical revisions a further 4.7 MMboe, offset by production during 2021 of 14.8 MMboe.

Total net 1P reserve volumes were 202.6 MMboe, an increase of 15% compared to the prior year. The increase is primarily due to the addition of proved undeveloped drilling locations, offset by 2021 production and higher operating and capital maintenance assumptions. Pieridae's total net 2P reserve volumes were 269.2 MMboe, an increase of 13% compared to the prior year with increases primarily due to the addition of proved plus probable undeveloped drilling locations, offset by 2021 production and higher operating and capital maintenance assumptions.

Pieridae added eight new gross proved undeveloped reserve locations ("PUD"s) and eight new gross proved plus probable reserve locations ("P+PUD"s) in 2021, for a total of 26 and 28 respective gross undeveloped drilling locations. Total undiscounted future development capital included in our reserve estimate is $300.8 million 1P and $439.1 million 2P.

The Company's 2P reserves as at December 31, 2021, were estimated to have a pre-tax net present value of approximately $1,002.1 million using a 10% discount rate, compared to $976.1 million in the prior year. The increase in value was primarily due to higher commodity price forecasts, partially offset by modifications to certain operating cost, capital maintenance and royalty assumptions.

Refer to the Company's Annual Information Form for the year ended December 31, 2021, for more information on reserves.

Benchmark Prices

	Three months ended December 31			Year ended December 31		
	2021	2020	% Change	2021	2020	% Change
AECO 5A benchmark price ($/mcf)	4.69	2.67	76	3.63	2.26	61
West Texas Intermediate crude oil (USD/bbl)	77.29	40.92	89	68.01	39.34	73
Condensate benchmark price ($/bbl)	100.10	56.01	79	85.95	50.17	71
Sulphur ($/tonne)	230.00	76.00	203	182.74	61.31	198
US/Canadian dollar average exchange rate (USD)	0.7935	0.7675	3	0.7977	0.7455	7

The AECO monthly index increased 76% in the fourth quarter of 2021 compared to the comparative quarter of 2020, and 61% for the year as compared to 2020. Prices trended higher through most of 2021, however shifting fundamentals resulted in heightened volatility. In global natural gas markets, low inventory levels and supply uncertainty pushed prices to record levels, further underpinning favourable market conditions for North American LNG exports.

Average WTI crude oil prices increased 89% in the fourth quarter of 2021 compared to the fourth quarter of 2020, and 73% for the year 2021 as compared to 2020. Global crude oil demand has almost fully recovered to pre-pandemic levels while supply has grown at a more gradual pace due to coordinated production curtailments and limited growth capital spending among independent producers. COVID-19 continues to contribute to volatility and uncertainty in the global crude oil market, but a supportive underlying supply and demand balance during the quarter helped push WTI to its strongest levels since 2014.

Canadian condensate differentials to WTI strengthened compared to the prior quarter due to typical seasonal factors. Strong oil sands production and competition for imported supply continued to strengthen the value of condensate relative to WTI. The recent commencement of service on Enbridge's Line 3 Expansion Project has provided significant incremental egress capacity to accommodate growing Canadian crude oil production.

Global sulphur market prices climbed steadily through 2021. Sulphur supply continues to be tight, due to both planned and unplanned curtailments of production, particularly in the Middle East and mid Central Asian republic countries. Simultaneously, demand has increased primarily from fertilizer manufacturers.

Realized Prices

	Three months ended December 31			Year ended December 31		
	2021	2020	% Change	2021	2020	% Change
Natural gas ($/mcf)	3.67	2.16	70	2.90	2.00	45
Condensate ($/bbl)	69.71	53.48	30	63.21	51.24	23
NGLs ($/bbl)	30.10	15.11	99	26.62	12.91	106
Sulphur ($/ton)	38.46	22.97	67	25.49	11.38	124

Pieridae's realized prices reflect the mix of spot sales and physical forward sales contracts entered under our hedging policy; refer to note 19 of the consolidated financial statements. In 2021, volumes sold under physical forward sales contracts represented 69% of total production, and 57% of total revenue. If losses on physical forward sale contracts were removed, the Company's average realized natural gas prices for the three months and year ended December 31, 2021, would have been $4.61/mcf and $3.60/mcf respectively, as compared to the AECO 5A benchmark of $4.69/mcf and $3.63/mcf respectively.

If losses on physical forward sale contracts were removed, average realized condensate prices for the three months and year ended December 31, 2021, would have been $91.68/boe and $80.14/boe respectively, as compared to the condensate benchmark prices of $100.10/bbl and 85.95/bbl respectively.

Pieridae is obligated to sell the majority of its sulphur production for $6.00/tonne under a fixed-price physical sales contract which expires on December 31, 2025. During the three and twelve months ended December 31, 2021, this contract represented 78% and 83% of total sulphur sales respectively (76% and 85% for the three and twelve months ended December 31, 2020).

Petroleum and Natural Gas Revenue

	Three months ended December 31			Year ended December 31		
($ 000s except per boe)	2021	2020	% Change	2021	2020	% Change
Natural gas	67,144	42,242	59	211,422	147,300	44
Condensate	18,287	16,033	14	66,370	56,639	17
NGLs	14,823	8,579	73	42,628	25,870	65
Sulphur	4,194	3,866	8	14,235	8,270	72
Petroleum and natural gas revenue	**104,448**	**70,720**	**48**	**334,655**	**238,079**	**41**
Petroleum and natural gas revenue ($/boe)	27.49	17.16	60	22.60	15.49	46
Third party processing and other income	3,355	6,289	(47)	18,555	28,695	(35)
Realized gain (loss) on risk management contracts	-	-	-	-	12,708	(100)
Total revenue	**107,803**	**77,009**	**40**	**353,210**	**279,482**	**26**

Trends in petroleum and natural gas revenue are primarily associated with fluctuations in the total volume produced and prices the Company receives for its production. As previously described, natural production decline was mitigated to 3% during 2021, and increases in realized prices during the year was the primary driver of the 48% increase in petroleum and natural gas revenue.

Third party processing and other income is primarily derived from fees charged to non-owner third parties for processing their production and sulphur volumes through Pieridae's gas and sulphur processing facilities. This income adds significantly to the economic benefits realized from these facilities by offsetting operating costs, which are highly fixed in nature. Third party processing and other income declined 47% and 35% respectively during the three and twelve months ended December 31, 2021, as a result of changes to the allocation of volumes under certain construction, ownership and operating ("CO&O") agreements during the year, as well as economic shut-in of non-owned production by certain third-party customers.

The Company did not utilize financial derivatives as a risk management tool during the year ended December 31, 2021, so did not recognize any realized gains or losses on financial risk management contracts, compared to a realized gain of $12.7 million in 2020 due to the monetization of certain WTI-linked commodity forward contracts during early 2020.

Royalties

	Three months ended December 31			Year ended December 31		
($ 000s except per boe)	2021	2020	% Change	2021	2020	% Change
Royalties	17,687	4,402	302	31,405	9,609	227
Royalties ($/boe)	4.65	1.07	335	2.12	0.63	237
Royalties as percentage of revenue (%)	16.9	6.2	173	9.4	4.0	135

Royalties in the fourth quarter of 2021 were 16.9% of revenue compared to 6.2% of revenue the same quarter in 2020. During 2021, royalties were 9.4% of revenue compared to 4% of revenue in 2020. Increases in realized and benchmark commodity prices during 2021 had a significant impact on royalty expense. Furthermore, gas cost allowance deductions were depleted in 2021 so did not provide as meaningful an offset to gross royalty expense on a percentage of revenue basis as compared to 2020.

Operating Expense

	Three months ended December 31			Year ended December 31		
($ 000s except per boe)	2021	2020	% Change	2021	2020	% Change
Operating expense	53,862	55,485	(3)	218,631	203,432	7
Operating expense ($/boe)	14.17	13.46	5	14.77	13.23	12

Operating expense in the fourth quarter of 2021 was consistent with the fourth quarter of 2020. During 2021, operating expense increased 7% as compared to 2020 due primarily to inflationary pressures arising from rising commodity prices on AECO price-linked processing fees, power, and chemicals, as well as an increase in carbon taxes in the jurisdictions the Company operates.

The following tables summarizes the Company's operating cost per boe by core area for the three months and year ended December 31, 2021, and 2020:

	Three months ended December 31			Year ended December 31		
	2021	2020	% Change	2021	2020	% Change
Waterton	12.36	10.97	13	12.54	13.07	(4)
Jumping Pound	11.58	11.00	5	15.73	12.70	24
Central Alberta Foothills	17.17	16.95	1	15.86	13.73	15
Northern Alberta Foothills	13.30	11.17	19	13.53	12.65	7
Northeast BC	9.79	7.02	39	18.00	12.55	43

Transportation Expense

	Three months ended December 31			Year ended December 31		
($ 000s except per boe)	2021	2020	% Change	2021	2020	% Change
Transportation expense	5,409	4,293	26	19,089	15,718	21
Transportation expense ($/boe)	1.42	1.04	37	1.29	1.02	26

The increase in transportation cost during the three and twelve months ended December 31, 2021, is primarily due to higher fuel gas costs associated with pipeline transportation across Pieridae's production portfolio.

Pieridae enters firm transportation service commitments to secure market access for its production. This transportation contract portfolio is monitored on an ongoing basis and contracts are assessed to determine the existence of any contracts that are onerous; none were identified at December 31, 2021. For information regarding Pieridae's payment obligations under its future transportation commitments, refer to note 23 of the consolidated financial statements.

General and Administrative Expense

	Three months ended December 31			Year ended December 31		
($ 000s except per boe)	2021	2020	% Change	2021	2020	% Change
G&A expense – Upstream	6,275	6,142	2	19,312	13,122	47
G&A expense – Corporate and LNG	1,231	(2,195)	(156)	6,556	9,367	(30)
G&A expense – Total	**7,506**	**3,947**	**90**	**25,868**	**22,489**	**15**
G&A expense ($/boe) – Upstream	1.65	1.49	11	1.30	0.85	53
G&A expense ($/boe) – Corporate and LNG	0.33	(0.53)	162	0.44	0.61	(28)
G&A expense ($/boe) – Total	**1.98**	**0.96**	**106**	**1.74**	**1.46**	**19**

Year-to-date 2021 general and administrative ("G&A") expense increased by 15% primarily as a result of penalties incurred on the deferred payment of property taxes. While property tax is classified as an operating expense, penalties thereon have been classified as G&A. Additionally, insurance expense increased 5% between 2020 and 2021. All Pieridae's net insurance cost is classified as G&A, representing approximately 17% of total G&A in 2021 (17% in 2020). During 2021, certain reallocations of G&A between the Upstream and Corporate and LNG segments occurred, reflecting the change in Corporate and LNG segment activity following June 30, 2021.

Finance Expense

	Three months ended December 31			Year ended December 31		
($ 000s)	2021	2020	% Change	2021	2020	% Change
Interest expense	9,705	7,365	32	25,340	29,402	(14)
Non-cash interest paid in kind	-	1,557	(100)	7,938	1,557	410
Accretion of financing costs	(11,110)	4,268	(360)	6,537	16,410	(60)
Interest income	-	-	-	(19)	(76)	(75)
Accretion of decommissioning obligations	-	208	(100)	-	840	(100)
Interest on lease liabilities	34	45	(24)	175	155	13
Other charges	128	258	(50)	621	480	29
Total finance expense	**(1,243)**	**13,701**	**(109)**	**40,592**	**48,768**	**(17)**

During the fourth quarter of 2021 Pieridae's senior secured credit agreement was amended. The amendment reduced the effective interest rate and associated net present value of the loan, resulting in a negative accretion of financing costs during the quarter. Offsetting this reduction, the Company elected to pay $7.9 million of interest expense in kind during the year, increasing the interest-bearing principal of the loan. Refer to note 12 of the consolidated financial statements for additional information on the long-term debt.

Depletion and Depreciation

	Three months ended December 31			Year ended December 31		
($ 000s)	2021	2020	% Change	2021	2020	% Change
Depletion and depreciation	15,976	15,452	3	48,442	44,013	10

During 2021, depletion and depreciation expense increased 10% compared to 2020 due to an increase in the depletable base, which arose primarily from higher decommissioning costs and future development costs within the Company's reserve value.

Impairment

	Three months ended December 31			Year ended December 31		
($ 000s)	2021	2020	% Change	2021	2020	% Change
Impairment of property, plant, and equipment	-	16,876	n/a	-	16,876	n/a

As at December 31, 2021, the Company did not identify any indicators of impairment or impairment reversals for the Company's upstream CGU assets, therefore no impairment tests were performed. Additionally, no indicators of impairment were noted on the Company's remaining CGUs, exploration, and evaluation assets, or right of use assets at December 31, 2021.

Capital Expenditures

The following tables summarizes the Company's capital expenditures for the years ended December 31, 2021, and December 31, 2020:

	Three months ended December 31			Year ended December 31		
($ 000s)	**2021**	**2020**	**% Change**	**2021**	**2020**	**% Change**
Seismic	375	307	(22)	2,650	2,178	22
Development	50	441	(89)	2,180	1,791	22
Plant and facilities	50	2,701	(98)	3,728	1,716	117
Turnarounds	917	2,485	(63)	22,932	8,768	162
Land	101	1,502	(93)	2,382	1,234	93
Corporate	-	1,608	(100)	1,100	1,607	32
Capital expenditures	**1,493**	**9,052**	**(84)**	**34,972**	**17,294**	**102**
Abandonment	787	433	(82)	2,537	2,173	17
Total capital expenditures	**2,280**	**9,485**	**(76)**	**37,509**	**19,467**	**93**

Share-based Compensation

	Three months ended December 31			Year ended December 31		
($ 000s)	**2021**	**2020**	**% Change**	**2021**	**2020**	**% Change**
Share-based compensation Upstream	14	221	(94)	300	389	(23)
Share-based compensation Corporate and LNG	8	334	(98)	208	594	(65)
Total	**22**	**555**	**(96)**	**508**	**983**	**(48)**

The Company's stock-based compensation ("SBC") expense is related to the granting of stock options used to incentivize directors, executives, and employees and align these option-holders' interests with shareholders. A total of $0.5 million in SBC expense was recognized in 2021 compared to $1.0 million in 2020. During the year ended December 31, 2021, Pieridae granted 2.0 million options at an average price of $0.30. In addition, 1.8 million options with an average exercise price of $1.03 were forfeited and 1.4 million options with an average exercise price of $4.36 expired. Pieridae's stock option plan permits issuances of stock options to a maximum of 10% of total common shares issued and outstanding.

Each option entitles the holder to acquire one Pieridae common share. Stock options granted to non-executive Directors vest and are exercisable immediately whereas options granted to executives and employees vest evenly over five annual tranches, with the first trance vesting immediately. For further information on Pieridae's stock options, refer to note 16 of the consolidated financial statements.

Upstream and Corporate and LNG share-based compensation expense decreased during the three months and year ended December 31, 2021, as a result of forfeitures during these periods, and the lower value of options granted as compared to those which expired during the year.

LNG SEGMENT

Project Background

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

On July 2, 2021, the Company announced that the Goldboro LNG Project was unable to achieve a positive final investment decision and was suspended. The Company had progressed the Project through the open book estimate ("OBE") and nearly finalized negotiation of an engineering, procurement, construction, and commissioning ("EPCC") execution plan and a final lump sum, EPCC contract price proposal. While discussions continue to take place, including exploration of alternate LNG solutions at the Goldboro site, no further expenditures are planned toward advancing an LNG project.

As previously disclosed, a condition of the Uniper contract is that the Company achieve a favourable FID by June 30, 2021, after which time either party has the right to terminate the contract. As of the date of this MD&A, neither party has provided this notice of termination.

Development Expense

	Three months ended December 31			Year ended December 31		
($ 000s)	2021	2020	% Change	2021	2020	% Change
Development expense	225	8,682	(97)	4,750	18,742	(75)

As described above, the Goldboro LNG project development was suspended in July of 2021. Certain development expenses were incurred during the wind down of project activities in the months following.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

Pieridae held $26.2 million in cash and cash equivalents and restricted cash of $1.3 million as at December 31, 2021. Restricted cash is comprised of security pledged for various letters of credit which are required to be posted with provincial agencies and other companies to facilitate the Company's ongoing operations.

Guarantee Facility from Export Development Canada ("EDC")

In July 2020, the Company received a $6 million guarantee facility from Export Development Canada which was increased to $8 million in June 2021. This guarantee facility provides for 100% guarantee to the issuing banks of the Company's existing and future letters of credit, of which $7.8 million was drawn at December 31, 2021.

Long-Term Debt

On October 16, 2019, the Company entered a $206.0 million senior secured fully drawn non-revolving long term loan facility ("long-term debt"). The long-term debt bears interest at a fixed rate of 15.0% per annum from the date of issue, accrued daily and payable quarterly, of which a certain portion is payable quarterly in cash or, subject to the lender's approval, payable in kind ("PIK") by way of accruing to the principal outstanding. The PIK calculation was amended as described below from January 1, 2022, forward.

The long-term debt is repayable in full on October 16, 2023; however the Company may repay the principal in whole or in part any time prior to October 16, 2023, upon 90 days written notice to the agent, without penalty. The Company incurred $6.0 million of closing costs which were accounted for as transaction costs and netted against the value of the loan to be amortized over 48 months.

Under the terms of the credit agreement, on or before October 16, 2021, the Company had an option either to acquire certain petroleum and natural gas properties from the lender for a purchase price of $45.0 million in cash on or before October 16, 2021, or pay a deferred fee ("Fee") in the amount of $50.0 million to the agent. On September 30, 2021, amendments to the credit agreement were made to delay payment of the Fee to January 1, 2022, and interest on this Fee accrued from October 16, 2021. Further amendments were made on December 31, 2021, to incorporate the Fee as part of the loan principal due on October 16, 2023, on an interest free basis. Other changes made on December 31, 2021, include an amendment to the payment of interest, on the principal balance excluding the Fee, whereby 8% will be payable in cash and the remaining 7% will be PIK on a quarterly basis. In addition, 1.75% of the principal balance outstanding including the Fee is repayable quarterly beginning in 2022.

During 2021 and 2020 several amendments and waivers were negotiated to the Credit Agreement, associated with certain covenants and payment obligations; refer to note 12 of the consolidated financial statements. As at December 31, 2021, the Company was in compliance with, or had obtained the required waivers for, all covenants of the loan.

Working Capital and Capital Strategy

The following table presents the composition of Pieridae's working capital position at December 31, 2021, and 2020:

	Year ended December 31	
($ 000s)	**2021**	**2020**
Cash and cash equivalents	26,216	11,069
Restricted cash	1,348	1,995
Accounts receivable	49,637	44,900
Prepaids expenses and deposits	5,060	5,364
Inventories [(1)]	2,515	23,882
Total current assets	**84,776**	**87,210**
Accounts payable	74,707	64,474
Accrued liabilities	67,628	34,372
Current portion of decommissioning obligations	5,390	4,434
Current portion of lease liabilities	1,549	2,032
Other amounts payable	1,514	1,514
Current portion of long-term debt [(2)]	21,654	-
Total current liabilities	**172,442**	**106,825**
Working capital (deficit)	**(87,666)**	**(19,615)**

[(1)] $21.0 million of inventory was reclassified to property, plant, and equipment during 2021 as it was concluded that it would be utilized in the Company's ongoing capital program. Refer to note 8 of the consolidated financial statements.

[(2)] As described in note 12 of the consolidated financial statements, the current portion of long-term debt does not meaningfully increase the Company's total cash flow obligation to its lender in 2022 due to the corresponding modification of the payment in kind mechanism.

Pieridae's working capital deficit at December 31, 2021, was $87.7 million compared to a deficit of $19.6 million at December 31, 2020. Working capital was negatively impacted during 2021 by net losses experienced during the first three quarters which arose from a combination of: weakness in condensate and liquids pricing and Pieridae's inability to fully participate in strengthening prices through the second half of 2021 due to fixed price natural gas sales contracts and WTI-linked condensate physical sales contracts which were under-market during the year, Goldboro development expenses, and a reduction in third-party processing fees. Additionally, the Company was obligated to conduct two major sustaining capital facility turnarounds at Jumping Pound and Caroline during the year which further strained our working capital resources.

The associated increases in accounts payable and accrued liabilities throughout 2021 were partially offset by higher accounts receivable at December 31, 2021, driven by stronger commodity prices in that month.

Management monitors working capital on a continuous basis. The downward trend of working capital reversed during the fourth quarter of 2021 and is anticipated to climb toward a more sustainable ratio during the first half of 2022; refer to the "Outlook" section of this MD&A. Management is focused on strengthening Pieridae's balance sheet through sustaining production, rigorous cost control across its operations and administration. Recent and forecast elevated commodity prices continue to provide supportive cash flows. Pieridae's capital strategy is aligned with its business strategy and is focused on ensuring the Company has sufficient liquidity to fund operations and mitigate reserve decline. Externally, Pieridae's principal sources of liquidity are the EDC guarantee facility, additional debt, and equity offerings.

Capital Resources

As at December 31, 2021, and 2020, Pieridae's capital structure was comprised of share capital, working capital and long-term debt, less cash and cash equivalents. The following table summarizes our capital structure on December 31, 2021, and December 31, 2020:

($ 000s)	**December 31, 2021**	**December 31, 2020**
Cash and cash equivalents	26,216	11,069
Less:		
current portion of long-term debt	(21,654)	-
long-term debt	(209,927)	(219,555)
Net debt	(205,365)	(208,486)
Shareholders' equity	(33,210)	4,384

SHARE CAPITAL, WARRANTS AND STOCK OPTIONS OUTSTANDING

As at December 31, 2021, the Company had 157,645,871 (December 31, 2020 - 157,641,871) common shares outstanding. As at December 31, 2021, 7,040,465 (December 31, 2020 - 8,322,072) stock options were outstanding with a weighted average exercise price of $1.27, representing 4.5% of common shares outstanding (December 31, 2020 – 5.3%).

As at March 23, 2022, the Company had 157,666,871 common shares outstanding and 6,917,465 options outstanding at a weighted average exercise price of $1.28.

As at December 31, 2021, and March 23, 2022, there were 5 million warrants outstanding (December 31, 2020 - nil) at an exercise price of $0.70 per common share.

COMMITMENTS, PROVISIONS AND CONTINGENCIES

The Company has entered several financial obligations during the normal course of business. As at December 31, 2021, these obligations, and the expected timing of their settlement, are detailed below:

($ 000s)	2022	2023	2024	2025	Thereafter	Total
Interest on long-term debt	17,013	13,857	-	-	-	30,870
Firm transportation	4,373	2,321	570	505	121	7,890
Total	**21,386**	**16,178**	**570**	**505**	**121**	**38,760**

Provisions and Contingencies

In November 2020, the Company settled a commercial dispute which resulted in the recognition of a total liability of $14.4 million to be settled $3.0 million up front and the remainder over 33 months. At December 31, 2021, the balance of $7.2 million was classified as $3.1 million in long term and $4.1 million in current liabilities within accounts payable and accrued liabilities. Refer to note 21 of the consolidated financial statements for additional information.

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

Off Balance Sheet Transactions

The Company does not have any financial arrangements that are excluded from the consolidated financial statements, nor are any such arrangements outstanding as of the date at this MD&A.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITMENT

Pieridae is in compliance with all environmental laws and regulations as of the date of this MD&A. Pieridae's Liability Management Rating is within both the British Columbia Oil and Gas Commission's ("BCOGC") and the Alberta Energy Regulator's ("AER") requirements after accounting for a $1.8 million deposit in place with the BCOGC. Pieridae's liability rating in Alberta is calculated by the AER based on the licenses which are in Pieridae's name; refer to note 13 of the consolidated financial statements for more information.

Pieridae embraces the notion of ethical responsibility and the value that belief brings to what we strive to accomplish each and every day. The latest lexicon companies use to bring this notion to life is ESG: Environmental, Social and Governance. ESG is weaved into the pillars of our business: communication, connection, leadership, shared value, and a focus on results. These are supported on a foundation we call "One Pieridae". Together, this foundation and five pillars hold up our integrated business and environment, social, and governance strategy.

In June 2021, Pieridae released its inaugural ESG Report. Toward developing this inaugural report, the Company formalized an ESG policy and a framework for integrating ESG into business strategy and decision making, including the formation of a new Board committee to oversee ESG and governance, establishing a senior management committee to bring ESG strategy and reporting to the next level, and completing a current state assessment and strategic roadmap, all enveloped in an ESG vision statement that will help guide the Company's ESG efforts. Refer to the Company's website for this inaugural ESG report.

RISK FACTORS

The Company monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations, or taxation. In addition, Pieridae maintains a level of liability, property and business interruption insurance which is believed to be adequate for the Company's size and activities but is unable to obtain insurance to cover all risks within the business or in amounts to cover all possible claims. Risk to Pieridae's business and operations include, but are not limited to:

Risks Related to the Oil and Gas Industry
Challenges in the Oil and Gas Industry
Price, Markets, Volatility and Marketing of Oil, Gas and NGLs
Reserve Decline, Exploration, Development and Production Risk
Reserve Estimates
Liability Management
Royalty Regimes
Alternatives to and Changing Demand for Petroleum Products
Reserve Decline, Exploration, Development and Production Risk
Other Risks Inherent to Pieridae's Business
Additional Financing Required, and Access to Capital
Liquidity
Environmental Incidents
Climate Change
Climate Change - Transition Risks
Climate Change - Physical Climate Change Risks
Climate Change Regulations and Carbon Taxes
Permits, Licenses and Approvals
Regulatory
COVID-19 and Its Effect on the Economy
Insurable Risk
Co-ownership of Assets and Operational Dependence
Growth Management
Third Party Credit Risk
Reliance on Key Personnel
Political, Geo-Political and Public Perception Risk
Hedging
Competition
Availability and Cost Inflation of Material and Equipment
Title to Production Assets and Reserves
Estimation of Abandonment and Reclamation Costs
Possible Failure to Realize Anticipated Benefits of Acquisitions
Project Risk
Conflicts of Interest
Litigation
Variations in Foreign Exchange and Interest Rates
Tax Horizon
Changes in Risk Profile
Cost of New Technologies
Internal Controls
Breach of Confidentiality
Information Technology Systems and Cyber-Security
Reputation Risk
Estimates and Assumptions
Forward-Looking Statements and Information May Prove Inaccurate
Risks Related to Pieridae's Common Shares
Volatility
Return on Investment
Dividends
Dilution

Refer to the Company's Annual Information Form for the year ended December 31, 2021, for fulsome discussion of these risks. See also "Forward Looking Statements" in this MDA.

SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

i. Identification of cash generating units

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

ii. Impairment of petroleum and natural gas assets

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

iii. Exploration and evaluation assets

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

iv. Lease arrangements

The Company applies judgement when reviewing each of its contractual arrangements to determine whether an arrangement contains a lease. The carrying amounts of the right-of-use assets, lease obligations, and the resulting interest and depreciation expense are based on the implicit interest rate within the lease arrangement or, if this information is unavailable, the incremental borrowing rate. Incremental borrowing rates are based on judgments including economic environment, term, and the underlying risk inherent to the asset.

v. Debt instruments

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

vi. Assessment of going concern

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

vii. Reserves

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

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

viii. Business combinations

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

ix. Decommissioning obligations

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

x. Share-based payments

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

xi. Deferred taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amount recognized in income or loss for the period in which the change occurs.

CONTROL ENVIRONMENT

Disclosure Controls and Procedures

As of December 31, 2021, an internal evaluation was carried out of the effectiveness of the Company's disclosure controls and procedures as defined in Canada by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that the information required to be disclosed in the reports that the Company files or submits under Canadian Securities Legislation is recorded, processed, summarized, and reported, within the time periods specified in the rules and forms therein. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by the Company in the reports that it files or submits under Canadian Securities Legislation is accumulated and communicated to Pieridae's Management as appropriate to allow timely decisions regarding the required disclosure.

Internal Controls over Financial Reporting

Internal controls over financial reporting ("ICFR") is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable, and timely information. Because of its inherent limitations, ICFR may not prevent or detect misstatements. Management has assessed the effectiveness of the Company's ICFR as defined in Canada by NI 52-109. The assessment was based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that the Company's ICFR was effective as of December 31, 2021. No changes were made to the Company's internal control over financial reporting during the year ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statements preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

NEW ACCOUNTING POLICIES

The Company plans to adopt the following amendments to accounting standards, issued by the IASB, on their respective effective dates; however, the amendments are not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment

In May 2020 the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment. Effective January 1, 2022, the amendments prohibit a company from deducting the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

Amendments to IAS 1 Presentation of Financial Statements

In January 2021 the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the consolidated statements of financial positions. The amendment is effective for periods beginning on or after January 1, 2023.

Amendments to IAS 37 Provision Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions Contingent Liabilities and Contingent Assets. Effective January 1, 2022, the amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

NON-GAAP MEASURES

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

Net Operating Income

Management considers net operating income an important measure to evaluate the Company's operational performance as it demonstrates Pieridae's field level profitability. Net operating income equals total revenue including realized gains and losses on commodity risk management contracts, less royalties, operating expenses, and transportation expenses.

	Three months ended December 31		Year ended December 31	
($ 000s)	2021	2020	2021	2020
Total revenue [(1)]	107,803	77,009	353,210	279,482
Royalties	(17,687)	(4,402)	(31,405)	(9,609)
Operating expense	(53,862)	(55,485)	(218,631)	(203,432)
Transportation expense	(5,409)	(4,293)	(19,089)	(15,718)
Net operating income [(2)]	**30,845**	**12,829**	**84,085**	**50,723**

[(1)] Excludes unrealized gains or losses from risk management contracts.

[(2)] Minimum 2020 NOI of $55 million per the TEC covenant waiver allowed for a $14.3 million adjustment related to the arbitration settlement amount. Refer to note 12 of the consolidated financial statements. Pieridae's covenant is a minimum annual NOI of $70 million.

Operating Netback

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

	Three months ended December 31		Year ended December 31	
($ per boe)	2021	2020	2021	2020
Total revenue	28.37	18.69	23.86	18.19
Royalties	(4.65)	(1.07)	(2.12)	(0.63)
Operating expense	(14.17)	(13.46)	(14.77)	(13.23)
Transportation expense	(1.42)	(1.04)	(1.29)	(1.02)
Operating netback ($/boe)	**8.13**	**3.12**	**5.68**	**3.31**

Adjusted Funds Flow from Operations

Management considers Adjusted Funds Flow from Operations an important measure to evaluate the Company's cash flow as it demonstrates Pieridae's field level operational cash flow. Adjusted funds flow from operations equals net loss plus financial income and expense where financial income and expense excludes accretion of decommissioning obligations, depletion, depreciation, and impairment (reversals), and loss on associates. Development expenses are also added back to better focus the metric on the Company's upstream operational performance.

	Three months ended December 31		Year ended December 31	
($ 000s)	2021	2020	2021	2020
Net income (loss)	4,661	(45,968)	(39,790)	(100,693)
Development expense	225	8,682	4,750	18,742
Finance expense	(1,243)	13,493	40,592	47,928
Depletion and depreciation	15,976	15,452	48,442	44,013
Impairment of property, plant, and equipment	-	16,876	-	16,876
Loss on associates [(1)]	3,698	-	3,698	-
Adjusted funds flow from operations	**23,317**	**8,535**	**57,692**	**26,866**

[(1)] Loss on associates represents a one-time write-down of Pieridae's remaining non-operated working interest in a New Brunswick-based joint venture; refer to note 24 of the consolidated financial statements.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Pieridae Energy Limited (the "Company") and all other information contained elsewhere in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies described in the accompanying notes. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. In the opinion of management, the financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The financial information presented elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to provide reasonable assurance that transactions are appropriately authorized and recorded, assets are safeguarded from loss or unauthorized use and financial records are properly maintained to provide reliable information for preparation of financial statements.

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

The consolidated financial statements have been audited by Ernst & Young LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

(signed)
Alfred Sorensen
Chief Executive Officer

(signed)
Adam Gray
Interim Chief Financial Officer

Calgary, Alberta, Canada
March 23, 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Pieridae Energy Limited

Opinion

We have audited the consolidated financial statements of Pieridae Energy Limited (the Company), which comprise the consolidated statements of financial position as at December 31, 2021, and 2020, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment and impairment reversal of the Northern CGU	
• As at December 31, 2021, the carrying value of property, plant and equipment (PP&E) was $529 million. Refer to Note 3 for a description of the Company's impairment of non-financial assets accounting policy. PP&E is tested for impairment or impairment reversal only when circumstances indicate that the carrying value of a cash generating unit ("CGU) differs from the recoverable amount. Impairment or impairment reversal is determined by estimating a CGU's respective recoverable amount. The Company determined that there were no internal or external indicators of impairment at December 31, 2021, for its Northern CGU. Significant management judgment is required analyzing internal and external indicators of impairment or historical impairment reversal with the estimate of cash flows from proved and probable oil and gas reserves being significant to the assessment. • The estimate of cash flows from proved and probable oil and gas reserves includes significant assumptions	We evaluated the Company's assessment of internal and external indicators of impairment by considering whether quantitative and qualitative information in the analysis was consistent with external market and industry data, the Company's press releases and certain minutes of the meetings of the Board of Directors. To test the estimate of cash flows from proved and probable oil and gas reserves, we performed the following procedures, among others: o Evaluated management's experts' competence, capability and objectivity as well as obtained an understanding of the work they performed. The appropriateness of their work as audit evidence was evaluated by considering the relevance and reasonableness of the methods and inputs

related to forecasted oil and gas commodity prices, forecasted production volumes, forecasted operating costs, forecasted royalty costs, and forecasted future development costs.

- The Company engaged independent third-party reserve evaluators to estimate the cash flows from proved and probable oil and gas reserves as at December 31, 2021.
- Auditing the assessment of internal and external indicators of impairment or reversal of impairment of the CGU was complex given the inherent subjective nature of the significant assumptions used in calculating the estimated cash flows from proved and probable oil and gas reserves.

  - Assessed forecasted production, royalty, operating cost, and capital cost data by comparing it to historical performance of the Company
  - Compared forecast benchmark commodity price estimates of oil, natural gas, and NGLs against historically realized prices and to other third-party price forecasts.

With the assistance of our internal valuation specialists, we assessed the market capitalization to net assets and compared key operating metrics to recent market transactions.

Evaluated the adequacy of the indicators of impairment note disclosure included in Note 8 of the accompanying consolidated financial statements in relation to this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada
March 23, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

In thousands of Canadian dollars		December 31, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents	(Note 7)	**26,216**	11,069
Restricted cash		**1,348**	1,995
Accounts receivable	(Note 19)	**49,637**	44,900
Prepaid expenses and deposits		**5,060**	5,364
Inventories		**2,515**	23,882
		84,776	87,210
Property, plant and equipment	(Note 8)	**528,366**	514,727
Exploration and evaluation assets	(Note 9)	**6,062**	3,255
Right-of-use assets	(Note 10)	**2,736**	2,971
Other assets	(Note 24)	**600**	4,488
Total assets		**622,540**	612,651
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**142,335**	98,845
Current portion of decommissioning obligations	(Note 13)	**5,390**	4,434
Current portion of lease liabilities	(Note 11)	**1,549**	2,032
Other amounts payable		**1,514**	1,514
Current portion of long-term debt	(Note 12)	**21,654**	-
		172,442	106,825
Other amounts payable	(Note 21)	**3,099**	14,898
Long-term debt	(Note 12)	**209,927**	219,555
Decommissioning obligations	(Note 13)	**269,097**	266,006
Lease liabilities	(Note 11)	**1,185**	983
Total liabilities		**655,750**	608,267
Shareholder's equity			
Share capital	(Note 14)	**274,322**	274,322
Contributed surplus		**12,882**	12,374
Warrants	(Note 14)	**1,349**	-
Accumulated other comprehensive income		**2,958**	2,619
Deficit		**(324,344)**	(284,668)
Equity attributable to equity holders of the Company		**(32,833)**	4,647
Non-controlling interests		**(377)**	(263)
Total shareholders' equity		**(33,210)**	4,384
Total liabilities and shareholders' equity		**622,540**	612,651

Commitments (Note 23)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors

(signed) Charles Boulanger

Chair of the Audit Committee and Director

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

In thousands of Canadian dollars, except per share amounts		**2021**	2020
Revenue			
Petroleum and natural gas	(Note 15)	**334,655**	238,079
Royalties		**(31,405)**	(9,609)
		303,250	228,470
Third party processing and other income		**18,555**	28,695
		321,805	257,165
Realized gain on risk management contracts		**-**	12,708
Unrealized loss on risk management contracts		**-**	(162)
		321,805	269,711
Expenses			
Operating		**218,631**	203,432
Transportation		**19,089**	15,718
General and administrative		**25,868**	22,489
Development	(Note 21)	**4,750**	18,742
Finance	(Note 17)	**40,592**	48,768
Depletion and depreciation	(Note 8)	**48,442**	44,013
Impairment of property, plant and equipment	(Note 8)	**-**	16,876
Share-based compensation		**508**	983
Foreign exchange gain (loss)		**17**	(629)
Loss on associates	(Note 24)	**3,698**	12
		361,595	370,404
Net loss		**(39,790)**	(100,693)
Other comprehensive income, net of income tax			
Foreign currency translation gain		**339**	256
Total comprehensive loss		**(39,451)**	(100,437)
Net loss attributable to			
Equity holders of the Company		**(39,676)**	(100,592)
Non-controlling interests		**(114)**	(101)
Net loss per share attributable to equity holders of the Company			
Basic and diluted (Note 14)		**(0.25)**	(0.64)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

In thousands of Canadian dollars		Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity Attributable to Equity Holders	Non-Controlling Interests	Total Equity
As at December 31, 2019		274,799	10,458	933	(184,076)	2,363	104,477	(162)	104,315
Share-based compensation		64	983	-	-	-	1,047	-	1,047
Common shares issued on Shell Acquisition		(541)					(541)		(541)
Expiry of warrants		-	933	(933)	-	-	-	-	-
Net loss attributable to equity holders of the Company		-	-	-	(100,592)	256	(100,336)	(101)	(100,437)
As at December, 31 2020	(Note 14)	274,322	12,374	0	(284,668)	2,619	4,647	(263)	4,384
As at December 31, 2020		274,322	12,374	-	(284,668)	2,619	4,647	(263)	4,384
Share-based compensation			508	-	-	-	508	-	508
Issuance of warrants		-	-	1,349	-	-	1,349	-	1,349
Net loss attributable to equity holders of the Company		-	-	-	(39,676)	339	(39,337)	(114)	(39,451)
As at December 31, 2021	(Note 14)	**274,322**	**12,882**	**1,349**	**(324,344)**	**2,958**	**(32,833)**	**(377)**	**(33,210)**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of Canadian dollars		**2021**	2020
Operating activities			
Net loss		**(39,790)**	(100,693)
Unrealized loss on risk management contracts		**-**	162
Depletion and depreciation	(Note 8)	**48,442**	44,013
Impairment of property, plant and equipment	(Note 8)	**-**	16,876
Accretion of financing costs	(Note 17)	**6,537**	16,410
Non-cash interest expense		**7,938**	1,557
Accretion of decommissioning obligations		**-**	840
Share-based compensation		**508**	983
Unrealized loss on foreign exchange		**-**	106
Loss on associates	(Note 24)	**3,698**	12
Non cash sales		**-**	1,832
Other amounts payable	(Note 21)	**(11,799)**	6,534
Settlement of decomissioning obligations	(Note 13)	**(2,537)**	(2,173)
Changes in non-cash working capital	(Note 20)	**38,120**	15,775
Cash provided by operating activities		**51,117**	2,234
Investing activities			
Additions to property, plant and equipment	(Note 8)	**(32,111)**	(15,065)
Additions to exploration and evaluation assets	(Note 9)	**(2,807)**	(2,178)
Proceeds from asset disposition		**(54)**	(51)
Changes in non-cash working capital	(Note 20)	**1,460**	3,625
Cash used in investing activities		**(33,512)**	(13,669)
Financing activities			
Issuance of share capital, net of costs		**-**	64
Restricted cash		**647**	16,967
Payment of financing fees		**(1,100)**	(1,325)
Payments on lease obligations	(Note 11)	**(2,344)**	(2,780)
Cash (used in) provided by financing activities		**(2,797)**	12,926
Increase in cash and cash equivalents		**14,808**	1,491
Cash and cash equivalents, beginning of year		**11,069**	9,567
Effect of foreign exchange on cash		**339**	11
Cash and cash equivalents, end of year		**26,216**	11,069
Cash paid:			
Interest paid in cash		**25,350**	29,362

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Pieridae Energy Limited (the "Company" or "Pieridae") is a publicly traded, Canadian based Company in the business of developing, producing and processing natural gas, and the production of natural gas liquids ("NGL's"). The common shares of Pieridae trade on the Toronto Stock Exchange ("TSX") under the symbol PEA. The Company was incorporated on May 29, 2012, under the laws of Canada. It is headquartered at 3100, 308 – 4th Avenue SW, Calgary, Alberta, T2P 0H7.

Many of the Company's oil and natural gas activities involve jointly owned assets. The consolidated financial statements reflect only the Company's proportionate interest in such activities and are comprised of the Company and its subsidiaries. Significant subsidiaries include Pieridae Alberta Production Ltd., Pieridae Energy (Canada) Ltd., and Goldboro LNG Limited Partnership.

2. Basis of Presentation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements are presented in Canadian dollars. The functional currency of the Company and its subsidiaries is Canadian dollars. All financial information reported in thousands, except per share amounts or where otherwise noted.

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments which are measured at fair value as detailed in the accounting policies disclosed in Note 3 "Summary of Accounting Policies".

The consolidated financial statements were authorized for issue by the Board of Directors on March 23, 2022.

3. Summary of Accounting Policies

a. Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies to obtain benefits from its activities. Intercompany balances and transactions have been eliminated upon consolidation of these financial statements.

b. Business combinations

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

c. Inventories

Inventory is primarily comprised of consumables, materials and supplies and is carried at the lower of cost and net realizable value. Cost of inventory consists of purchase costs and is determined using average cost or on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. If the carrying amount exceeds net realizable value, an impairment is recognized. The impairment may be reversed in a subsequent period if the circumstances which caused it no longer to exist and the inventory is still on hand.

d. Financial instruments

i. Non-derivative financial instruments

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

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

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

ii. Derivative financial instruments

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

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

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

e. Share capital

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

f. Property, plant and equipment

i. Recognition and measurement

Exploration and evaluation assets

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

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

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

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

Development and production costs

Items of property, plant and equipment, which include oil and gas development and production costs, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Property, plant and equipment include land and lease acquisition costs, geological and geophysical costs, costs of drilling and equipping productive wells, costs for production and processing facilities, decommissioning costs, and other directly attributable administrative costs. Property, plant and equipment are accumulated in cost centers based on CGUs for impairment testing. When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of property, plant and equipment, property swaps and farm-outs, are determined by comparing the proceeds or fair value of the asset received or given up with the carrying amount of property, plant and equipment and are recognized in profit or loss.

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

ii. Depletion and depreciation

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

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

g. Impairment

i. Financial assets

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

ii. Non-financial assets

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

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

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

h. Provisions

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably. Provisions are not recognized for future operating losses.

i. Decommissioning obligations

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

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

i. Revenue recognition

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

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

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

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

j. Foreign currency transactions

Transactions completed in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the time of the transactions. Foreign currency assets and liabilities are translated to functional currency at the period-end exchange rate. Revenue and expenses are translated to functional currency using the average exchange rate for the period. Realized and unrealized gains and losses resulting from the settlement or translation of foreign currency transactions are included in profit or loss.

Certain subsidiaries of the Company operate and transact primarily in currencies other than the Canadian dollar. The designation of a subsidiary's functional currency is a management judgment based on the currency of the primary economic environment in which the subsidiary operates. The financial statements of each entity are translated into Canadian dollars in preparation of the Company's consolidated financial statements. The assets and liabilities of a foreign denominated operation are translated to Canadian dollars at the period-end exchange rate. Revenues and expenses of foreign denominated operations are translated to Canadian dollars using the average exchange rate for the period. Foreign exchange differences are recognized in accumulated other comprehensive income or loss.

k. Share-based compensation

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

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

l. Finance income and expenses

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

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

m. Income tax

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

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

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

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

n. Per share information

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

o. Joint arrangements

The Company conducts its exploration and development activities independently, as well as jointly with others through jointly controlled assets and operations. All of the Company’s current interests in joint arrangements are classified as joint operations. To account for these arrangements, the Company recognizes its proportionate share of the related revenues, expenses, assets and liabilities of such joint operations.

p. Determination of fair value

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

i. Property, plant and equipment and intangible exploration assets

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

ii. Cash and cash equivalents, accounts receivable, long-term debt, accounts payable and accrued liabilities and other amounts payable

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and other amounts payable are measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows.

Long-term debt bears a fixed interest rate and is carried at its amortized cost using the effective interest method.

iii. Derivatives

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

iv. Share options

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

v. Measurement

The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

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

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

Refer to Note 19 of the consolidated financial statements, which provides fair value measurement information for financial assets and liabilities.

q. Leases

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

4. New Accounting Policies and Standards

The Company plans to adopt the following amendments to accounting standards, issued by the IASB, on their respective effective dates, however, the amendments are not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment

In May 2020 the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment. Effective January 1, 2022, the amendments prohibit a company from deducting the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

Amendments to IAS 1 Presentation of Financial Statements

In January 2021 the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the consolidated statements of financial positions. The amendment is effective for periods beginning on or after January 1, 2023.

Amendments to IAS 37 Provision Contingent Liabilities and Contingent Assets

In May 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions Contingent Liabilities and Contingent Assets. Effective January 1, 2022, the amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

5. Management Judgement and Estimation Uncertainty

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions. These estimates and judgement are subject to change and actual results may differ from those estimated. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets, liabilities, revenues and expenses are discussed below:

xii. Identification of cash generating units

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

xiii. Impairment of petroleum and natural gas assets

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

xiv. Exploration and evaluation assets

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

xv. Lease arrangements

The Company applies judgement when reviewing each of its contractual arrangements to determine whether an arrangement contains a lease. The carrying amounts of the right-of-use assets, lease obligations, and the resulting interest and depreciation expense are based on the implicit interest rate within the lease arrangement or, if this information is unavailable, the incremental borrowing rate. Incremental borrowing rates are based on judgments including economic environment, term, and the underlying risk inherent to the asset.

xvi. Debt instruments

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

xvii. Assessment of going concern

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

xviii. Reserves

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

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

xix. Business combinations

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

xx. Decommissioning obligations

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

xxi. Share-based payments

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

xxii. Deferred taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amount recognized in income or loss for the period in which the change occurs.

6. Segmented Financial Information

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

The upstream segment is comprised predominantly by the petroleum and natural gas production operations and properties.

The LNG segment contains all activities associated with the development of the Company's proposed LNG facility in Goldboro, Nova Scotia. The Company's Goldboro LNG Project was suspended during 2021.

Segmented Information

	Upstream		Corporate & LNG		Consolidated	
In thousands of Canadian dollars	**2021**	2020	**2021**	2020	**2021**	2020
Revenue						
Petroleum and natural gas	**334,655**	238,079	-	-	**334,655**	238,079
Royalties	**(31,405)**	(9,609)	-	-	**(31,405)**	(9,609)
	303,250	228,470	-	-	**303,250**	228,470
Third party processing and other income	**18,555**	28,695	-	-	**18,555**	28,695
	321,805	257,165	-	-	**321,805**	257,165
Realized gain on risk manangement contracts	**-**	12,708	**-**	-	**-**	12,708
Unrealized loss on risk manangement contracts	**-**	(162)	**-**	-	**-**	(162)
	321,805	269,711	**-**	-	**321,805**	269,711
Expenses						
Operating	**218,631**	203,432	**-**	-	**218,631**	203,432
Transportation	**19,089**	15,718	**-**	-	**19,089**	15,718
General and administrative	**19,312**	13,122	**6,556**	9,367	**25,868**	22,489
Development	**-**	-	**4,750**	18,742	**4,750**	18,742
Finance	**39,962**	48,768	**630**	-	**40,592**	48,768
Depletion and depreciation	**47,720**	43,439	**722**	574	**48,442**	44,013
(Reversal) impairment of property, plant and equipment	**-**	16,876	**-**	-	**-**	16,876
Share-based compensation	**300**	389	**208**	594	**508**	983
Foreign exchange loss (gain)	**8**	(629)	**9**	-	**17**	(629)
Loss on associates	**-**	12	**3,698**	-	**3,698**	12
	345,022	341,127	**16,573**	29,277	**361,595**	370,404
Net loss	**(23,217)**	(71,416)	**(16,573)**	(29,277)	**(39,790)**	(100,693)

Total Assets by Segment	**December 31, 2021**	**December 31, 2020**
Upstream assets	**594,363**	572,978
Corporate and LNG assets	**28,177**	39,673
Total consolidated assets	**622,540**	612,651

7. Cash and Cash Equivalents & Restricted Cash

At December 31, 2021, cash and cash equivalents was $26.2 million (December 31, 2020 - $11.1 million) and restricted cash was $1.3 million (December 31, 2020 - $2.0 million). Restricted cash is primarily used to collateralize letters of credit issued to regulators.

8. Property, Plant and Equipment

($ 000s)		
Cost	**2021**	**2020**
Balance, January 1	**594,556**	516,575
Additions	**32,111**	13,269
Capital spares [(1)]	**21,034**	-
Change in decommissioning obligations (Note 13)	**6,584**	65,253
Business acquisition [(2)]	**-**	(541)
Balance, December 31	**654,285**	594,556

Accumulated Depletion and Depreciation	**2021**	**2020**
Balance, January 1	**79,829**	21,527
Depletion and depreciation	**46,090**	41,426
Impairment	**-**	16,876
Balance, December 31	**125,919**	79,829

Net Book Value	**2021**	**2020**
Balance, January 1	**514,727**	495,048
Balance, December 31	**528,366**	514,727

[(1)] $21.0 million of capital spares were reclassified from inventory to property, plant and equipment as items were deemed to be long-lead, unique, critical parts held for emergencies or major servicing based on new information and more experience with the assets.

[(2)] Adjustment to shares issued on Shell acquisition.

At December 31, 2021, the Company did not identify any indicators of impairment or potential impairment reversals on any of its CGUs, thus no impairment test was required. At December 31, 2021, future development costs of the Company's proved plus probable reserves of $688.9 million (December 31, 2020 - $226.0 million) were included in the depletion calculations.

At December 31, 2020, the Company assessed for indicators of impairment on its upstream CGUs and determined that impairment indicators existed in the Company's Northern and Central CGUs due to declines in reserves and forecasted commodity prices. The fair value less cost of disposal method was used to determine the recoverable amounts of these two CGUs and was classified as Level 3 fair value measurements as certain key assumption were not based on observable market data but rather Management's best estimates. An impairment test was performed and an impairment of $16.9 million was recognized on the Company's Northern CGU.

The recoverable amounts of the CGUs were calculated based on 11% discounted after-tax cash flows of proved and probable reserves using forward prices and costs estimates at December 31, 2020, and an inflation rate of 2%.

The table below summaries the forecasted prices used at December 31, 2020, to determine the recoverable amounts:

	AECO ($CAD/Mcf)	Edmonton Ethane ($CAD/Mcf)	Edmonton Propane ($CAD/Bbl)	Edmonton Butane ($CAD/Bbl)	Edmonton Condensate ($CAD/Bbl)
2021	2.75	8.51	18.30	25.76	57.75
2022	2.70	8.35	23.49	33.27	63.10
2023	2.65	8.16	26.11	40.49	67.58
2024	2.69	8.28	26.94	41.80	69.74
2025	2.74	8.45	27.50	42.66	71.15
2026	2.81	8.62	28.07	43.55	72.58
2027	2.86	8.79	28.64	44.44	74.04
2028	2.91	8.98	29.23	45.36	75.52
Escalate	2% per year	2% per year	2% per year	2% per year	2% per year

9. Exploration and Evaluation Assets

($ 000s)	**2021**	**2020**
Balance, January 1	**3,255**	1,077
Additions	**2,807**	2,178
Balance, December 31	**6,062**	3,255

Exploration and evaluation ("E&E") assets consist primarily of the Company's seismic assets, in addition to undeveloped land and exploration projects which are pending the determination of technical feasibility and commercial viability. At December 31, 2021, and 2020, no impairment indicators were identified related to the Company's E&E assets, therefore impairment tests were not performed.

10. Right-Of-Use Assets

The Company enters into arrangements to secure access to assets necessary for operating the business. Leased right-of-use ("ROU") assets include office, vehicles and equipment. The following table details the cost and accumulated depreciation of the Company's ROU assets as at December 31, 2021, and December 31, 2020:

($ 000s) **Cost**	**2021**	**2020**
Balance, January 1	**6,714**	6,581
Additions	**2,126**	357
Disposals	**(64)**	(224)
Balance, December 31	**8,776**	6,714

Accumulated Depreciation	**2021**	**2020**
Balance, January 1	**3,743**	1,141
Depreciation	**2,352**	2,746
Disposals	**(55)**	(144)
Balance, December 31	**6,040**	3,743

Net Book Value	**2021**	**2020**
Balance, January 1	**2,971**	5,440
Balance, December 31	**2,736**	2,971

At December 31, 2021, and 2020, the Company determined that no impairment indicators existed on the right-of-use assets, therefore no impairment tests were performed.

11. Lease Liabilities

The following table summarizes the movement in the Company's lease liabilities for the year ended December 31, 2021, and December 31, 2020:

($ 000s)	**2021**	2020
Balance, January 1	**3,015**	5,569
Additions	**2,126**	226
Disposal	**(63)**	-
Interest expense	**175**	155
Lease payments	**(2,519)**	(2,935)
Balance, December 31	**2,734**	3,015
Lease liabilities due within one year	**1,549**	2,032
Lease liabilities due beyond one year	**1,185**	983

Lease payments that were expensed under short-term and low dollar value exemptions in the years ended December 31, 2021, and 2020 were trivial.

12. Long-Term Debt

($ 000s)	**2021**	**2020**
Balance, January 1	**219,555**	202,913
Accretion of financing costs	**6,537**	16,410
Interest paid in kind	**7,938**	1,557
Financing fees [1]	**(2,449)**	(1,325)
Balance, December 31	**231,581**	219,555
Current portion	**21,654**	-
Long-term portion	**209,927**	219,555

[1] Financing fees include the value of warrants issued to the senior debt lender. Refer to note 14.

In October 2019 the Company entered into a $206.0 million senior secured fully drawn non-revolving long term loan facility ("Term Loan"). The term loan debt bears interest at a fixed rate of 15.0% per annum from the date of issue, accrued daily and payable quarterly, of which a certain portion is payable quarterly in cash or, subject to the lender's approval, payable in kind ("PIK") by way of accruing to the principal outstanding. The PIK calculation was amended as described below for the period from January 1, 2022, forward.

The term loan is repayable in full on October 16, 2023; however the Company may repay the principal in whole or in part any time prior to October 16, 2023, upon 90 days written notice to the agent, without penalty. The Company incurred $6.0 million of closing costs which were accounted for as transaction costs and netted against the value of the loan to be amortized over 48 months.

Under the terms of the credit agreement, on or before October 16, 2021, the Company had an option either to acquire certain petroleum and natural gas properties from the lender for a purchase price of $45.0 million in cash or pay a deferred fee ("Fee") in the amount of $50.0 million to the agent. On September 30, 2021, amendments to the credit agreement were made to delay payment of the Fee to January 1, 2022, and interest on this Fee started to accrue from October 16, 2021. Further amendments were made on December 31, 2021, to incorporate the Fee as part of the loan principal due on October 16, 2023, on an interest free basis. Other changes made on December 31, 2021, included an amendment to the payment of interest, on the principal balance excluding the Fee, whereby 8% will be payable in cash and the remaining 7% will be PIK on a quarterly basis. In addition, 1.75% of the principal balance outstanding is repayable quarterly beginning in 2022.

Pieridae is subject to certain financial covenants and other obligations during the year ended December 31, 2021:

(i) Minimum adjusted monthly working capital ratio starting January 31, 2022, of 0.7:1 calculated as whereby current assets is adjusted for $21.0 million of capital spare parts included in property, plant and equipment and current liabilities excludes all amount due or accrued to the lender.

(ii) Mandatory principal repayments of excess cash on a quarterly basis if the adjusted working capital ratio, as described in (i) above, exceeds 0.85:1.

(iii) Minimum net operating income ("NOI") of $70 million per annum. NOI is a non-GAAP measure calculated as petroleum and natural gas revenue less royalties, plus other income, third party processing and realized gains and losses on risk management contracts, less operating and transportation expenses.

(iv) Minimum hedging covenant of 60% of the Company average daily sales volumes; waived through July 31, 2022.

As at December 31, 2021, and 2020 the Company was in compliance with, or had received waivers from the lender for all covenants, and no prepayment was required.

During 2021, the Company periodically elected to PIK as allowed by the credit agreement, resulting in $7.9 million (December 31, 2020 – $1.6 million) addition to the principal outstanding.

The effective interest rate on the Company's term loan for the year ended December 31, 2021, was 20.0% (December 31, 2020 – 21.8%).

Letter of Credit Guarantee Facility

In July 2020, the Company received a $6 million guarantee facility from Export Development Canada which was increased to $8 million in June 2021. This guarantee facility provides for 100% guarantee to the issuing banks of the Company's existing and future letter of credit of which $7.8 million was drawn at December 31, 2021 (December 31, 2020 - $4.9 million). Outstanding letters of credit are not classified as long-term debt on the consolidated statements of financial position.

13. Decommissioning Obligations

($ 000s)	**2021**	2020
Balance, January 1	**270,440**	206,520
Additions	**-**	2,674
Change in cost estimates	**24,243**	(1,823)
Change in discount rate	**(17,659)**	64,402
Settlement of obligations	**(2,537)**	(2,173)
Accretion	**-**	840
Balance, December 31	**274,487**	270,440
Expected to be incurred within one year	**5,390**	4,434
Expected to be incurred beyond one year	**269,097**	266,006

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $256.4 million (December 31, 2020 - $237.7 million).

The Company used an observable, market-based and inflation adjusted risk-free real rate of return to estimate the present value of the decommissioning obligation. At December 31, 2021, the Company used a risk-free discount rate of -0.14% (December 31, 2020 – -0.28%). The use of the risk-free real rate of return resulted in a change in estimate of $17.7million being reduced to the cost of the related asset in property, plant and equipment and exploration and evaluation assets.

A portion of the Company's decommissioning obligations were acquired from Shell as part of the southern Alberta Foothills acquisition in October 2019, which included three major gas processing facilities. In accordance with the purchase and sale agreement ("PSA"), Shell retained the liability for future subsurface reclamation costs associated with pre-existing sulfinol plumes under two of these facilities. These subsurface costs represent a material percentage of the total decommissioning liability associated with these assets. The Company has not recognized a liability for this portion of the estimated decommissioning cost.

Following the acquisition, Shell submitted application to the Alberta Energy Regulator to transfer the licenses from Shell to Pieridae, which was initially rejected due to complications of the liability bifurcation. This process remains ongoing and material uncertainty exists regarding the timing and outcome of that transfer, however Pieridae is the beneficial owner of all assets acquired under the PSA and operates them as such. The Company has recognized all decommissioning obligations associated with the PSA; the outcome of the license transfer process is not expected to conclude in 2022 and the outcome of this process on the consolidated financial statements is uncertain.

14. Share Capital

Authorized

The Company has an unlimited number of common shares with the holders of common shares entitled to one vote per share and an unlimited number of preferred shares issuable in series, with rights and privileges to be designated by the Board of Directors at the time of issuance. There were no preferred shares outstanding at December 31, 2021, or 2020.

Issued and Outstanding Common Shares

($ 000s except share amount)	Common shares	2021 Amount	Common shares	2020 Amount
Balance, January 1	**157,641,871**	**274,322**	157,561,174	274,799
Share issues on stock option exercise	**4,000**	**-**	-	-
Shares issued on Shell acquisition (Note 8)	**-**	**-**	-	(541)
Share-based compensation	**-**	**-**	80,697	-
Share issue costs (net of tax)	**-**	**-**	-	64
Balance, December 31	**157,645,871**	**274,322**	157,641,871	274,322

Warrants

On March 31, 2021, the Company issued 5,000,000 common share purchase warrants to the senior lender, at an exercise price equal to $0.70 per common share warrant. The Black-Scholes pricing model was used with the following assumptions to calculate the fair value of $1.3 million for the warrants on issue date at March 31, 2021:

Risk-free interest rate	0.99%
Expected life (years)	5.0
Volatility	84.10%

Per Share Amounts

	2021	2020
Weighted average common shares	**157,642,287**	158,065,608
Dilutive effect of options [(1)]	**-**	-
Weighted average common shares, diluted	**157,642,287**	158,065,608
Net loss per share – basic and diluted	**$(0.25)**	$(0.64)

[(1)] For the year ended December 31, 2021, all options and warrants (December 31, 2020 – all options) were excluded from the diluted weighted average shares calculation as they were anti-dilutive.

The calculation of basic earnings per share for the year ended December 31, 2021, was based on a net loss of $39.8 million (December 31, 2020 – net loss $100.7 million).

15. Petroleum and Natural Gas Sales

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

($ 000s)	2021	2020
Natural gas	**211,422**	147,300
Condensate	**66,370**	56,639
NGLs	**42,628**	25,870
Sulphur	**14,235**	8,270
Total petroleum and natural gas revenues	**334,655**	238,079

The Company also generated gas processing revenue of $15.3 million (December 31, 2020 - $25.5 million) for fees charged to third parties for processing through facilities in which Pieridae has an ownership interest. This revenue is classified as third-party processing on the consolidated statement of loss and comprehensive loss.

16. Share Based Payments

Pursuant to the Company's 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 shares issued and outstanding as at the time of granting. Stock options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company. All share-based compensation is equity settled.

The changes in options outstanding and the related weighted average exercise prices for the years ended December 31, 2021, and 2020 were as follows:

	Options	Weighted Average Exercise Price ($)
Balance, January 1, 2020	**6,392,072**	2.47
Granted	**2,200,100**	0.86
Forfeited	**(57,497)**	4.08
Expired	**(212,603)**	4.00
Balance, December 31, 2020	**8,322,072**	1.99
Granted	**1,993,590**	0.30
Exercised	**(4,000)**	0.30
Forfeited	**(1,831,967)**	1.03
Expired	**(1,439,230)**	4.36
Balance, December 31, 2021	**7,040,465**	1.27

The following table summarizes stock options outstanding and exercisable at December 31, 2021:

	Stock Options Outstanding			Stock Options Exercisable		
Range of Exercise Price ($)	Number of Outstanding Stock Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price ($)	Number of Exercisable Stock Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price ($)
0.30 – 0.80	1,989,590	4.63	0.30	720,390	4.63	0.30
0.81 – 2.52	4,237,375	3.09	0.88	2,588,971	3.05	0.89
4.01 – 5.67	813,500	1.14	5.67	735,800	1.15	5.67
Total	**7,040,465**	**3.30**	**1.27**	**4,045,161**	**2.99**	1.65

The weighted average fair value of options granted in 2021 is $0.30 (December 31, 2020 - $0.86). Th following table discusses the assumptions used in the Black-Scholes option-pricing model to calculate the weighted average fair value of the stock options granted during 2021 and 2020, respectively:

	2021	2020
Risk-free interest rate	**0.60%**	0.38%
Expected life (years)	**3.3**	5.0
Volatility	**89.47%**	86.17%
Forfeiture rate	**12.64%**	11.80%

17. Finance Expense

The following is a summary of finance expenses:

($ 000s)	2021	2020
Interest expense	**25,340**	29,402
Non-cash interest paid in kind	**7,938**	1,557
Accretion of financing costs	**6,537**	16,410
Interest income	**(19)**	(76)
Accretion of decommissioning obligations (Note 13)	**-**	840
Interest on lease liabilities (Note 11)	**175**	155
Other charges	**621**	480
Total finance expense	**40,592**	48,768

18. Deferred Tax

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

($ 000s)	**2021**	**2020**
Loss before taxes	**(39,790)**	(100,693)
Combined federal and provincial income tax rate	**23.00%**	24.28%
Computed income tax benefit	**(9,152)**	(24,448)
Tax effects of		
Non-deductible share-based compensation	**117**	242
Non-deductible expense	**309**	-
Change in unrecognized deferred tax assets	**7,946**	24,351
Change in tax rates	**780**	(145)
Total tax expense (recovery)	**-**	-

($ 000s)	**2021**	**2020**
Non-capital losses	**89,372**	78,353
Decommissioning obligations	**63,726**	63,255
Other	**7,636**	4,981
Deferred tax assets	**160,734**	146,589
Property, plant and equipment	**(67,226)**	(57,627)
Deferred tax liabilities	**(67,226)**	(57,627)
Net deferred tax asset not recognized	**(93,508)**	(88,962)
Net deferred tax assets	**-**	-

Deferred income tax assets are recognized for tax loss and tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. A deferred tax asset in the amount of $93.5 million (December 31, 2020 - $89.0 million) has not been recognized as management does not find it probable that the benefit will be realized. Included in this tax basis are estimated non-capital loss carry forwards that expire in the years 2026 through 2040.

19. Financial Instruments and Risk Management

Financial instruments at December 31, 2021, consist of accounts receivable, accounts payable and accrued liabilities, other amounts payable and long-term debt. The carrying value of these financial instruments approximate their fair values

The Company has exposure to counterparty credit risk, liquidity risk and market risk. Pieridae recognizes that effective management of these risks is a critical success factor in managing organization and shareholder value. Risk management strategies, policies and limits ensure risks and exposures are aligned to the Company's business strategy and risk tolerance. The Board of Directors is responsible for providing risk management oversight and oversees how management assesses and monitors risk. The following analysis provides an assessment of those risks as at December 31, 2021.

Counterparty credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivable from partners in jointly owned assets, natural gas marketers and counterparties to derivative financial contracts.

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms. Sales from petroleum and natural gas marketers are normally collected on the 25th day of the month following sale. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with creditworthy purchasers. The Company historically has not experienced any material collection issues with its petroleum and natural gas marketers.

Receivables from partners in jointly owned assets associated with processing fees, operating costs and other costs are typically collected within one to three months of the bill being issued to the partner. The Company attempts to mitigate the credit risk from joint venture partners in jointly owned assets by, where possible, transacting with creditworthy counterparties, and by obtaining partner approval of significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs.

The Company does not typically obtain collateral from petroleum and natural gas marketers or partners in jointly owned assets; however, the Company can cash call for major projects and does have the ability, in most cases, to withhold production from these partners in the event of non-payment.

The carrying amount of accounts receivable represents the maximum credit exposure to the Company at December 31, 2021. As at December 31, 2021, and 2020, the Company's accounts receivables consisted of:

($ 000s)	**2021**	**2020**
Petroleum and natural gas marketers	**33,308**	26,968
Partners in jointly owned assets	**14,848**	16,232
Other (primarily government entities)	**1,481**	1,700
Total	**49,637**	44,900

As at December 31, 2021, and 2020, the Company's accounts receivables were aged as follows:

($ 000s)	**2021**	**2020**
Current (less than 90 days)	**42,806**	36,454
Past due (more than 90 days)	**6,831**	8,446
Total	**49,637**	44,900

The Company has assessed the past due receivables and determined that as at December 31, 2021, a provision of $0.8 million was required (December 31, 2020 – nil).

Liquidity and funding risk

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

The timing of cash outflows relating to financial liabilities as at December 31, 2021, is outlined in the table below:

($ 000s)	**2022**	**2023**	**2024**	**2025**	**Thereafter**	**Total**
Accounts payable and accrued liabilities	142,335	-	-	-	-	142,335
Other amounts payable	1,514	3,099	-	-	-	4,613
Long-term debt	21,654	269,629	-	-	-	291,283
Lease liabilities	1,596	668	519	73	29	2,885
Total	**167,099**	**273,396**	**519**	**73**	**29**	**441,116**

Subsequent to December 31, 2021, and as a result of significantly stronger commodity prices combined with lower hedged production, the Company has taken positive steps to reducing its long outstanding accounts payable and improving its liquidity position.

Capital management

The Company manages the capital structure and makes adjustments in light of changes in economic and market conditions and the risk characteristics of the underlying assets. The Company's objective when managing capital is to ensure it has sufficient funds to maintain and develop its operating properties, accelerate debt repayment, and meet its commitments. To maintain or adjust the capital structure, the Company may issue new shares, obtain additional debt facilities and/or consider strategic alliances including joint venture partners.

Pieridae manages its capital structure and financing requirements using adjusted funds flow from operations, a non-GAAP measure Adjusted funds flow is used to monitor and assess liquidity and the flexibility of the Company's capital structure by providing management and investors with a measure of the cash flows generated by the Company's assets available to meet financial obligations. Adjusted fund flow from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

The calculation of adjusted fund flow from operations is as follows:

($ 000s)	**2021**	**2020**
Cash provided by operating activities	**51,117**	2,234
Unrealized loss on risk management contracts	**-**	(162)
Accretion of financing costs	**(6,537)**	(16,410)
Non-cash interest expense	**(7,938)**	(1,557)
Accretion of decommissioning obligations	**-**	(840)
Share-based compensation	**(508)**	(983)
Unrealized loss on foreign exchange	**-**	(106)
Loss on associates	**-**	(12)
Non-cash sales	**-**	(1,832)
Other amounts payable	**11,799**	(6,534)
Settlement of decommissioning obligations	**2,537**	2,173
Changes in non-cash working capital	**(38,120)**	(15,775)
Development expense	**4,750**	18,742
Finance expense	**40,592**	47,928
Adjusted funds flows from operations	**57,692**	26,866

To date, the Company has funded its share of commitments from existing cash balances, equity raises and various debt facilities. The Company may require additional financing to advance exploration and development activities. Management will explore all options to achieve the appropriate funding levels. Sources of future funds available to the Company are the issuance of additional shares, debt, a partnership agreement, or the sale of an interest in an oil or natural gas properties.

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

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: commodity price risk, interest rate risk and currency risk.

a. Commodity price risk

The Company's petroleum and natural gas production is directly subject to fluctuations in commodity prices. Fluctuations in commodity prices, both absolute and associated with changes in the Canadian to U.S. dollar exchange rate, and specifically the prices for natural gas, condensate and NGL's, could have significant impact on the Company's cash flows and its ability to sustain its operations.

Commodity price volatility may impact the Company's operating cash flows, and its ability to attract the necessary investment to maintain operations. The Company will continue to evaluate a number of options to manage ongoing elevated level of commodity price volatility and risk.

The Company utilizes fixed price delivery contracts and derivative financial instruments as part of its overall risk management strategy to assist in managing the exposure to commodity price risk and the cost of power. Physical contracts are considered normal sales contracts and are not recorded at fair value but recognized in petroleum and natural gas revenue as contracts are settled. These financial instruments are not used for trading or speculative purposes.

The Company had the following fixed price physical commodity sales contracts and power contracts in place at December 31, 2021.

Type of contract	Quantity	Time Period	Contract Price
Fixed Price - Natural Gas Sales	60,000 GJ/d	January– March 2022	CAD $3.01/GJ
Fixed Price - Natural Gas Sales	83,500 GJ/d	April – October 2022	CAD $2.29/GJ
Fixed Price - Natural Gas Sales	17,500 GJ/d	November – March 2023	CAD $2.88/GJ
Fixed price - Power Purchases	50 MW/h	January – December 2022	CAD $70.33/MWh
Fixed price - Power Purchases	30 MW/h	January – December 2023	CAD $71.99/MWh

For the year ended December 31, 2021, commodity derivative contracts gains or losses were nil (December 31, 2020 – gain of $12.7 million). The Company did not enter into any financial risk management contracts in 2022 thus the sensitivities on commodity price movement of 10% on such contracts are nil (December 31, 2020 – nil).

b. Interest rate risk

Interest rate risk is the risk that future cashflows will fluctuate as a result of changes in market interest rate. While the Company's interest rate exposure under its term loan is fixed.

c. Currency risk

Currency risk is the risk that cashflows will fluctuate as a result of changes in foreign currencies and the Canadian dollar. Certain of the Company's cashflows are subject to currency risk. Associated accounts payable, accrued liabilities and commitments are denominated in US dollars, UK pound sterling and Euro, however the impact of currency fluctuations are immaterial. To date, the Company has not entered into any foreign currency transactions or financial instruments to manage currency risks, thus the sensitivities on 5% movement on Canadian/ US foreign exchange on such contracts are nil.

20. Presentation in Consolidated Statements of Cash Flows

The following table provides a detailed breakdown of certain line items contained within cashflow from operating and investing activities:

($ 000s)	**2021**	**2020**
Changes in non-cash working capital		
Accounts receivable	**(4,737)**	(4,126)
Prepaid expenses and deposits	**494**	(1,829)
Inventories	**333**	(347)
Accounts payable and accrued liabilities	**43,490**	25,272
Other amounts payable	**-**	430
Total change in non-cash working capital	**39,580**	19,400
Relating to:		
Operating activities	**38,120**	15,775
Investing activities	**1,460**	3,625

21. Other Amounts Payable

Other amounts payable balance of $14.9 million at December 31, 2020, was comprised of a $7.5 million provision and a $7.4 million liability for a commercial dispute. During the year ended December 31, 2021, the full liability of $7.5 million due to a third-party, contingent upon the execution of an engineering, procurement, construction and commissioning ("EPCC") contract within a specifically designed scope was determined to be extremely unlikely, thus the full amount was reversed to development expense.

The remaining balance of was comprised of other amounts payable to third parties that extend beyond one year. In November 2020, the Company settled a commercial dispute which resulted in the recognition of a total liability of $14.4 million, $3.0 million paid in November 2020 and the remainder payable over the subsequent 33 months, beginning in January 2021. At December 31, 2021, the balance of $7.2 million was classified as $3.1 million in long term and $4.1 million in current, within accounts payable and accrued liabilities.

22. Related Party Transactions

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

($ 000s)	**Year Ended December 31, 2021**	**Year Ended December 31, 2020**
Salaries and employee benefits	**2,504**	2,266
Director's fees	**726**	433
Total short -term benefits	**3,230**	2,699
Share-based compensation	**231**	607
Total key management personnel compensation	**3,461**	3,306

23. Commitments

The following is a summary of the Company's contractual obligations and commitments as at December 31, 2021:

($ 000s)	**2022**	**2023**	**2024**	**2025**	**Thereafter**	**Total**
Interest on long-term debt	17,013	13,857	-	-	-	30,870
Firm transportation	4,373	2,321	570	505	121	7,890
Total	**21,386**	**16,178**	**570**	**505**	**121**	**38,760**

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

24. Other assets

Other assets is comprised of security deposits of $0.6 million (December 31, 2020 - $0.8 million). During the year ended December 31, 2021, the Company recorded a loss on associates of $3.7 million (December 31, 2020 – $nil) which reduced the carrying value of the investment to nil as there was little activity or plans in place to further develop the asset. Pieridae Production LP and Pieridae Production GP were established on March 4, 2013, to develop gas resources in New Brunswick, Nova Scotia and the Northeast US. As at December 31, 2021, the Company's ownership interest was 20% (December 31, 2020, -20%).