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. Where necessary, management has made informed judgements and estimates in accounting for transactions that were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as appropriate in the circumstances. The financial information presented elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

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

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

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

(signed)
Alfred Sorensen
Chief Executive Officer

(signed)
Robert Dargewitcz
Chief Financial Officer

Calgary, Alberta, Canada
April 15, 2020

Independent Auditor's Report

To the Shareholders of Pieridae Energy Limited

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Calgary, Canada

April 15, 2020

Consolidated Statements of Financial Position

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

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

Approved on behalf of the Board of Directors:

(signed) Charles Boulanger

Chair, Audit Committee

PIERIDAE ENERGY

Consolidated Statements of Loss and Comprehensive Loss

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

Consolidated Statements of Changes in Equity

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

PIERIDAE ENERGY

Consolidated Statements of Cash Flows

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

Notes to the Consolidated Financial Statements

1. Corporate Information

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

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

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

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

2. Basis of presentation

Basis of measurement and statement compliance

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

Functional and presentation currency

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

Use of judgements and estimates

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

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

(i) Identification of cash generating units

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

(ii) Impairment of petroleum and natural gas assets

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

(iii) Exploration and evaluation assets

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

(iv) Deferred taxes

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

(v) Debt Instruments

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

(vi) Assessment of going concern

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

Critical accounting estimates

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

(i) Reserves

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

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

(ii) Business combinations

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

(iii) Decommissioning obligation

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

(iv) Share-based payments

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

(v) Financial derivatives

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

(vi) Deferred taxes

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

3. Accounting Policies

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

(a) Consolidation

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

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

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

(b) Business combinations

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

(c) Inventories

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

(d) Financial instruments

(i) Non-derivative financial instruments:

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

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

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

(ii) Derivative financial instruments:

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

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

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

(iii) Share capital:

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

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

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

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

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

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

(f) Impairment

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

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

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

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

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

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

Provisions are not recognized for future operating losses.

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

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

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

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

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

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

(i) Foreign currency transactions

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

(j) Share-based compensation

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

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

(k) Finance income and expenses

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

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

(l) Income tax

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

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

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

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

(m) Per share information

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

(n) Flow-through shares

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

(o) Jointly owned assets

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

(p) Determination of Fair Value

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

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

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

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

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

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

(iii) Derivatives:

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

(iv) Share options:

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

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

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

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

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

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

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

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

4. Changes in Accounting Policies

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

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

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

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

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

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

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

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

5. Business Combination

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

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

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

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

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

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

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

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

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

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

6. Segmented Financial Information

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

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

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

Segmented Information

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

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

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

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

7. Cash and Cash Equivalents

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

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

8. Property, Plant and Equipment

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

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

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

Depletion:

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

Impairment assessment:

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

9. Exploration and Evaluation Assets

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

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

Impairment assessment:

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

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

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

10. Right-Of-Use Assets

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

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

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

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

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

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

11. Lease Liabilities

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

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

12. Term Debt

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

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

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

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

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

(i) a minimum working capital ratio of 1.0x tested monthly commencing January 31, 2020 as calculated using a prescriptive formula,
(ii) a minimum market capitalization threshold of $200 million commencing September 30, 2020 (extended on March 31, 2020 via waiver from the agent and lender to June 30, 2021)
(iii) mandatory repayments of 50% of the Company's excess cash on a quarterly basis commencing December 31, 2019 as calculated using a prescriptive formula
(iv) unless the Company exercises a purchase right, but not an obligation, to acquire certain petroleum and natural gas properties from the lender for a purchase price of $45.0 million in cash on or before October 16, 2021, the Company will pay a deferred fee in the amount of $50.0 million to the agent. Pieridae is currently providing for the eventual payment of the deferred fee. In subsequent reporting periods, if Pieridae instead determines to exercise the purchase right, an adjustment to the financial liability would be required and would be recognized immediately in profit or loss.

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

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

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

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

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

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

13. Decommissioning Obligations

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

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

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

14. Share Capital

Authorized

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

Issued and outstanding common shares

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

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

Per Share Amounts

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

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

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

15. Petroleum and Natural Gas Sales

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

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

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

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

16. Share Based Payments

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

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

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

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

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

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

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

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

17. Finance Income and Expenses

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

18. Deferred Tax

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

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

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

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

19. Financial Instruments and Risk Management

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

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

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

Counterparty credit risk

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

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

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

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

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

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

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

Liquidity and funding risk

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

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

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

Capital management

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

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

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

Market risk

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

(a) Price risk

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

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

(b) Interest rate risk

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

(c) Currency risk

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

Business risks and uncertainties

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

20. Presentation in Consolidated Statements of Cash Flows

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

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

21. Related Party Transactions

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

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

22. Commitments

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

23. Interests in Associates

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

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

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

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

Summarized financial statement information of the Partnership is disclosed below:

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

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

24. Subsequent Event

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

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