CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited, in thousands of Canadian dollars		June 30, 2023	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents		**14,442**	22,273
Restricted cash		**670**	670
Accounts receivable	(Note 12)	**51,507**	74,514
Prepaid expenses and deposits		**9,444**	8,130
Inventories		**3,533**	3,122
Assets held for sale	(Note 4)	-	17,731
Risk management contracts	(Note 12)	**11,220**	505
		90,816	126,945
Property, plant and equipment	(Note 4)	**401,403**	398,092
Exploration and evaluation assets	(Note 5)	**7,977**	7,863
Right-of-use assets		**3,675**	3,640
Deferred income tax asset		**71,978**	78,937
Total assets		**575,849**	615,477
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**82,321**	116,836
Current portion of decommissioning obligations	(Note 8)	**4,749**	4,749
Liabilities held for sale	(Note 4,8)	-	16,673
Current portion of lease liabilities		**2,003**	1,849
Risk management contracts	(Note 12)	**1,013**	254
Warrant liability	(Note 7)	**8,556**	-
Current portion of long-term debt	(Note 6)	**9,646**	203,254
		108,288	343,615
Other amounts payable		**568**	509
Risk management contracts	(Note 12)	**245**	-
Long-term debt	(Note 6)	**165,766**	-
Decommissioning obligations	(Note 8)	**159,263**	154,755
Lease liabilities		**1,745**	1,840
Total liabilities		**435,875**	500,719
Shareholder's equity			
Share capital	(Note 9)	**275,891**	275,882
Contributed surplus		**13,069**	12,819
Warrants		**1,349**	1,349
Accumulated other comprehensive income		**9,945**	2,809
Deficit		**(159,939)**	(177,760)
Equity attributable to equity holders of the Company		**140,315**	115,099
Non-controlling interests		**(341)**	(341)
Total shareholders' equity		**139,974**	114,758
Total liabilities and shareholders' equity		**575,849**	615,477

Commitments (Note 14)
See accompanying notes to the consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

		Three months ended June 30,		Six months ended June 30,	
Unaudited, in thousands of Canadian dollars, except per share amounts		**2023**	2022	**2023**	2022
Revenue					
Petroleum and natural gas	(Note 10)	**72,048**	131,086	**197,449**	254,474
Royalty recovery (expense)	(Note 10)	**16,594**	(23,426)	**1,888**	(42,558)
		88,642	107,660	**199,337**	211,916
Third party processing and other income	(Note 10)	**5,561**	7,513	**16,192**	13,895
		94,203	115,173	**215,529**	225,811
Realized gain on risk management contracts		**3,301**	-	**3,682**	-
Unrealized (loss) gain on risk management contracts		**(102)**	-	**439**	-
		97,402	115,173	**219,650**	225,811
Expenses					
Operating		**48,982**	52,963	**115,455**	110,255
Transportation		**4,679**	6,241	**9,918**	12,292
General and administrative		**6,588**	7,211	**11,816**	14,286
Finance	(Note 11)	**16,356**	12,916	**27,442**	27,356
Depletion and depreciation	(Note 4)	**16,218**	12,812	**32,846**	27,967
Share-based compensation		**513**	73	**530**	152
Foreign exchange gain		**(2,386)**	(25)	**(2,401)**	(28)
Loss on warrant liability	(Note 7)	**1,396**	-	**1,396**	-
		92,346	92,191	**197,002**	192,280
Net income before taxes		**5,056**	22,982	**22,648**	33,531
Deferred income tax expense		**874**	-	**4,827**	-
Net income		**4,182**	22,982	**17,821**	33,531
Other comprehensive income, net of income tax					
Items that may be reclassified to net income					
Foreign currency translation loss		**(2)**	(182)	**(3)**	(81)
Unrealized gain on cash flow hedges, net of tax		**7,139**	-	**7,139**	-
Total comprehensive income		**11,319**	22,800	**24,957**	33,450
Net income per share					
Basic	(Note 9)	**0.03**	0.15	**0.11**	0.21
Diluted	(Note 9)	**0.03**	0.14	**0.11**	0.21

See accompanying notes to the consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited, in thousands of Canadian dollars	Share Capital	Contributed Surplus	Warrants	Deficit	Accumulated Other Comprehensive Income	Total Equity Attributable to Equity Holders	Non-Controlling Interests	Total Equity
As at December 31, 2021	274,322	12,882	1,349	(324,344)	2,958	(32,833)	(377)	(33,210)
Share-based compensation	-	152	-	-	-	152	-	152
Common shares issued on stock option exercise	757	(254)	-	-	-	503	-	503
Net income	-	-	-	33,531	(81)	33,450	-	33,450
As at June 30, 2022	275,079	12,780	1,349	(290,813)	2,877	1,272	(377)	895
As at December 31, 2022	275,882	12,819	1,349	(177,760)	2,809	115,099	(341)	114,758
Share-based compensation	-	254	-	-	-	254	-	254
Common shares issued on stock option exercise	9	(4)	-	-	-	5	-	5
Net income	-	-	-	17,821	-	17,821	-	17,821
Other comprehensive income	-	-	-	-	7,136	7,136	-	7,136
As at June 30, 2023	**275,891**	**13,069**	**1,349**	**(159,939)**	**9,945**	**140,315**	**(341)**	**139,974**

See accompanying notes to the consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited, in thousands of Canadian dollars		Three months ended June 30 2023	2022	Six months ended June 30, 2023	2022
Operating activities					
Net Income		**4,182**	22,982	**17,821**	33,531
Unrealized gain on risk management contracts		**102**	-	**(439)**	-
Depletion and depreciation	(Note 4)	**16,218**	12,812	**32,846**	27,967
Non-cash interest expense paid in kind	(Note 11)	**1,792**	3,647	**4,442**	7,331
Accretion of financing costs	(Note 11)	**3,268**	4,795	**8,039**	11,216
Loss on debt extinguishment	(Note 6)	**6,859**	-	**6,859**	-
Accretion of decommissioning obligations	(Note 8)	**548**	186	**1,062**	186
Stock-based compensation		**135**	73	**254**	152
Unrealized gain on foreign exchange		**(121)**	-	**(121)**	-
Loss on revaluation of warrants	(Note 7)	**1,396**		**1,396**	
Deferred income tax		**874**	-	**4,827**	-
Proceeds from non-refundable deposit	(Note 4)	**-**		**(4,200)**	
Other amounts payable		**179**	(1,033)	**59**	(2,066)
Settlement of decommissioning obligations	(Note 8)	**(375)**	(498)	**(887)**	(1,636)
Changes in non-cash working capital	(Note 13)	**(7,524)**	(8,042)	**(7,316)**	(38,547)
Cash provided by operating activities		**27,533**	34,922	**64,642**	38,134
Investing activities					
Additions to property, plant and equipment	(Note 4)	**(9,181)**	(9,123)	**(29,756)**	(11,532)
Additions to exploration and evaluation assets	(Note 5)	**(203)**	(616)	**(114)**	(1,741)
Proceeds from non-refundable deposit	(Note 4)			**4,200**	
Changes in non-cash working capital	(Note 13)	**(3,496)**	6,356	**(6,517)**	6,911
Cash used in investing activities		**(12,880)**	(3,383)	**(32,187)**	(6,362)
Financing activities					
Exercise of stock options		**2**	506	**5**	503
Restricted cash		**-**	198	**-**	198
Repayment of term debt	(Note 6)	**(190,808)**	(26,437)	**(221,378)**	(29,656)
Proceeds on issuance of debt (net)	(Note 6)	**194,661**	-	**194,661**	-
Payment of financing fees	(Note 6)	**(12,384)**	(200)	**(12,584)**	(400)
Payments on lease obligations		**(489)**	(431)	**(986)**	(811)
Cash used in financing activities		**(9,018)**	(26,364)	**(40,282)**	(30,166)
Increase (decrease) in cash and cash equivalents		**5,635**	5,175	**(7,827)**	1,606
Cash and cash equivalents, beginning of period		**8,810**	22,748	**22,273**	26,216
Effect of foreign exchange on cash		**(3)**	(182)	**(4)**	(81)
Cash and cash equivalents, end of period		**14,442**	27,741	**14,442**	27,741
Cash paid:					
Interest paid in cash		**3,767**	4,253	**7,009**	8,464

See accompanying notes to the consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED 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, natural gas liquids ("NGL's") and sulphur. The common shares of Pieridae trade on the Toronto Stock Exchange ("TSX") under the symbol PEA. The Company was incorporated on May 29, 2012, under the laws of Canada. It is headquartered at 3100, 308 – 4th Avenue SW, Calgary, Alberta, T2P 0H7.

Many of the Company's activities involve jointly owned assets. These condensed interim consolidated financial statements reflect only the Company's proportionate interest in such activities and are comprised of the Company and its subsidiaries. The majority of Pieridae's assets and business activities are held in a wholly owned subsidiary, Pieridae Alberta Production Ltd. ("PAPL").

These condensed interim consolidated financial statements were approved by the Board of Directors of Pieridae on August 9, 2023.

2. Basis of Presentation

These unaudited condensed interim consolidated financial statements ("interim financial statements") and the notes thereto have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These interim financial statements have been prepared following the same accounting policies and methods of computation as the Company's annual consolidated financial statements as at and for the year ended December 31, 2022. Certain information and disclosures normally required to be included in the notes to the annual financial statements have been condensed or omitted. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2022. Comparative amounts have been reclassified to match the current period presentation.

Significant accounting judgments and estimates

The preparation of these interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses, and related disclosures with respect to contingent assets and liabilities. Pieridae bases judgments, estimates and assumptions on current facts, historical experience and various other factors that are reasonable under the circumstances. The economic environment could also impact certain judgments, estimates and discount rates necessary to prepare these interim financial statements, including significant estimates and judgments used in assessing for impairment indicators in the current economic environment. Actual results could differ materially from estimates and assumptions. Pieridae reviews estimates and underlying assumptions on an ongoing basis and makes revisions as determined necessary by management. Such revisions are recognized in the period in which the estimates are revised and may impact future periods.

Critical accounting judgments and estimates used in preparing the interim financial statements are described in Pieridae's consolidated financial statements for the year ended December 31, 2022.

3. New Accounting Policies and Standards

The Company's significant accounting policies under IFRS are presented in Note 3 to the annual consolidated financial statements. Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements presented in accordance with IFRS have been condensed or omitted in the interim financial statements. During the current quarter the Company has adopted hedge accounting, which is discussed in Note 12.

4. Property, Plant and Equipment

($ 000s)		
Cost	**June 30, 2023**	**December 31, 2022**
Balance, January 1	**537,594**	654,285
Additions	**29,756**	37,725
Change in decommissioning obligations (Note 8)	**(12,340)**	(95,771)
Assets held for sale	**58,645**	(58,645)
Balance, end of period	**613,655**	537,594

Accumulated Depletion and Depreciation	June 30, 2023	December 31, 2022
Balance, January 1	**139,502**	125,919
Depletion and depreciation	**31,836**	54,497
Assets held for sale	**40,914**	(40,914)
Balance, end of period	**212,252**	139,502

Net Book Value	June 30, 2023	December 31, 2022
Balance, January 1	**398,092**	528,366
Balance, end of period	**401,403**	398,092

At June 30, 2023, and December 31, 2022, the Company did not identify any indicators of impairment or potential impairment reversals on any of its CGUs, thus no impairment test was required. At June 30, 2023, future development costs of the Company's proved plus probable reserves of $1,086.7 million (December 31, 2022 - $1,086.7 million) were included in the depletion calculations.

In June 2022, the Company entered into an agreement to dispose of certain non-core oil and natural gas properties in Northeast British Columbia. In March 2023, the purchaser failed to meet the required closing conditions, following multiple extensions. The Company retained the purchaser's non-refundable deposit of $4.2 million, which was recorded as other income. Effective June 30, 2023, the asset was reclassified from assets held for sale back into property, plant and equipment. The associated depletion for the current period and the period it was held for sale was recorded. There were no indicators of impairment associated with these assets at June 30, 2023. The related decommissioning obligations were reclassified from liabilities held for sale to decommissioning obligations.

5. Exploration and Evaluation Assets

($ 000s)	June 30, 2023	December 31, 2022
Balance, January 1	**7,863**	6,062
Additions	**114**	1,801
Balance, end of period	**7,977**	7,863

Exploration and evaluation ("E&E") assets consist primarily of the Company's seismic assets, in addition to undeveloped land and exploration projects which are pending the determination of technical feasibility and commercial viability. At June 30, 2023 and December 31, 2022, no impairment indicators were identified related to the Company's E&E assets, therefore impairment tests were not performed.

6. Long-Term Debt

On June 13, 2023, the Company completed a debt refinancing. The debt refinancing retired the Company's existing debt in advance of its upcoming maturity on October 16, 2023. The table below summarizes the details:

($ 000s)	**Notes**	**June 30, 2023**
Senior Facility	(i)	
Revolving loan USD $25,000 (USD $12,000 drawn) (1)		**22,243**
Amortizing term loan USD $85,000 (USD $85,000 drawn) (1)		**112,540**
Delayed draw term loan USD $10,000 (undrawn) (1)(2)		**-**
Subordinated Notes USD $30,000 (USD $30,000 drawn) (1)	(ii)	**39,720**
Bridge Term Loan $20,000 ($20,170 drawn) (3)	(iii)	**20,170**
Unamortized deferred financing fees		**(12,101)**
Fair value of warrants (Note 7)		**(7,160)**
		175,412
Current portion		**9,646**
Long-term portion		**165,766**

(1) Converted to CAD using the month end exchange rate of 1.324.

(2) The delayed draw term loan must be drawn between July 1, 2023, and December 31, 2024. Any amount drawn will be combined with the amortizing term loan, together (the "Term Notes").

(3) The Bridge Term Loan includes interest payable in-kind of $0.2 million for the period ended June 30, 2023.

(i) Senior Facility

The Senior Facility ("Senior Facility") was issued to PAPL. The Senior Facility bears interest at the Secured Overnight Financing Rate ("SOFR") plus 6.75% per annum from the date of issue accrued daily and payable monthly or quarterly at PAPL's discretion. The Term Notes amortize at 2% quarterly, beginning September 30, 2023. In addition, the revolving loan and Term Notes are subject to an excess cash flow sweep, if any, based on a prescriptive formula. The revolving loan is subject to an unused fee of 0.5% per annum payable quarterly on the undrawn portion of the revolving loan. The delayed draw term loan is subject to an undrawn fee of 1% per annum, payable quarterly on the undrawn portion of the loan. The Senior Facility is repayable in full on March 13, 2027. The Company may repay the Term Notes in whole or in part upon written notice to the lender, by incurring a prepayment penalty, which was identified as an embedded derivative that is clearly and closely related to the Senior Facility contract and thus, no incremental value was assigned. The prepayment penalty is 103% of the principal plus interest any time prior to December 5, 2025, and 100% of the principal plus interest any time after December 5, 2025. PAPL incurred $10.8 million of closing costs, which were accounted for as transaction costs and netted against the value of the loan to be amortized over 45 months.

(ii) Subordinated Notes

The Subordinated Notes ("Subordinated Notes") were issued to PAPL. The Subordinated Notes bear interest at a fixed rate of 13% per annum from the date of issuance accrued daily and payable quarterly. The Subordinated Notes are repayable in full on September 13, 2027.The Company may repay them in whole or in part upon written notice to the lender by incurring an early termination penalty of USD $48 million less the total amount of the principal, which was identified as an embedded derivative that is clearly and closely related to the Subordinated Notes contract and thus, no incremental value was assigned. PAPL incurred $0.8 million of closing costs, which were accounted for as transaction costs and netted against the value of the loan to be amortized over 51 months.

The Subordinated Notes include common share purchase warrants described in Note 7.

(iii) Bridge Term Loan

The Bridge Term Loan ("Bridge Term Loan") was issued to the Company and has no direct recourse against the assets or cash flows of PAPL. The Bridge Term Loan bears interest at a fixed rate of 18% per annum accrued daily and payable in-kind quarterly. The Bridge Term Loan is repayable in full on December 13, 2024; however, the Company may repay the principal and interest in whole or in part any time prior to December 13, 2024, upon 30 days written notice to the agent, without penalty. The Company incurred $0.4 million of closing costs, which were accounted for as transaction costs and netted against the value of the loan to be amortized over 18 months.

The Company has agreed to seek shareholder approval for an optional conversion right, which would allow the Company or the lender to convert the outstanding principal amount, accrued and unpaid interest plus a conversion fee equal to 20% of the principal amount outstanding into common shares of the Company (the "Conversion Amount"). Shareholder approval must be obtained by December 13, 2023. From that time and until the maturity date of the Bridge Term Loan, the conversion right may be exercised. If shareholder approval is not obtained, the Bridge Term Loan will continue to be repayable in cash in accordance with its original terms, and along with the Subordinated Notes, will be subject to an increased interest rate of 10% and 2% per annum, respectively. The loan is currently classified as a financial liability as the right to convert the amount does not exist until shareholder approval is obtained.

Covenants

The new debt instruments contain various covenants on the part of PAPL including covenants that place restrictions or requirements with respect to additional debt, liens, asset sales, capital expenditures, general and administrative expenditures, hedging activities, investments, dividends and mergers and acquisitions.

Under the terms of the senior facility and the subordinated notes, Pieridae is subject to the following minimum financial covenants at the end of each quarter calculated on a fiscal rolling quarterly basis:

	Minimum Requirement
Total leverage ratio	Total debt/EBITDAX <2.5X
Senior leverage ratio	Senior debt/EBITDAX <2X
Asset coverage ratio	Adjusted PV 10 reserves/Debt >2X
Interest coverage ratio	EBITDAX/Finance expense >2.0X

The Company is subject to a hedge requirement over the term of the Senior Facility, whereby it must hedge the following percentages of proved developed producing ("PDP") natural gas and condensate production, net of annualized royalties calculated as at June 13, 2023: 75% in months 1 to 24 at a minimum average price of C$3.50/Mcf, 65% in months 25 to 36 at a minimum average price of C$3.50/Mcf and 45% thereafter at a minimum average price of C$4.00/Mcf, as measured from June 13, 2023. These obligations were met in full by June 13, 2023 and will be adjusted to account for updates to PDP forecasts over time.

As at June 30, 2023 the Company was in compliance with all covenants.

Debt Extinguishment

On June 13, 2023, concurrent with the completion of the debt refinancing transaction described above, the Company fully extinguished its term-debt, and replaced it with debt with substantially different terms. As the existing term debt has been replaced with debt from a different counterparty and with substantially different terms, the transaction has been accounted for as an extinguishment. The following table reconciles the loss on debt extinguishment:

($ 000s)	
Principal outstanding on term-debt as date of extinguishment	181,997
Unamortized financing costs	(6,259)
Carrying value	175,738
Term-debt extinguishment payment	(181,997)
Early retirement fee	(600)
Loss on debt extinguishment	(6,859)

Letter of Credit Guarantee Facility

Effective June 30, 2023, the guarantee facility from Export Development Canada was renewed and maintained at $12.0 million. This facility provides for 100% guarantee to the issuing bank of the Company's existing and future letter of credit of which $5.9 million was drawn at June 30, 2023 (December 31, 2022 - $7.2 million).

7. Warrant Liability

In conjunction with the issuance of the Subordinated Notes, the Company issued 18,596,322 warrants at an exercise price of $0.49 per share that expire on June 13, 2030. Each warrant is exercisable into one common share.

These warrants are classified as a financial liability due to the cashless exercise feature. As a result they are measured at fair value upon issuance and remeasured at fair value at each subsequent reporting period. Changes in fair value are recorded in the consolidated statement of income.

The warrants can be exercised at any time and are therefore presented as a current liability on the consolidated statements of financial position. The Black-Scholes pricing model was used with the following assumptions to calculate fair value of the warrants at issue date on June 13, 2023 and the change in the period:

	June 30, 2023	June 13, 2023
Risk-free interest rate	**3.87%**	4.00%
Expected life (years)	**6.96**	7.00
Volatility	**93.1%**	92.7%

The following table reconciles the warrant liability in the period:

($ 000s)	June 30, 2023
Balance, initial valuation	**7,160**
Change in fair value	**1,396**
Balance, end of period	**8,556**

8. Decommissioning Obligations

($ 000s)	June 30, 2022	December 31, 2022
Balance, January 1	**159,504**	274,487
Additions	**104**	-
Change in cost estimates	**-**	11,363
Change in discount rate	**(12,444)**	(107,134)
Settlement of obligations	**(887)**	(3,791)
Accretion	**1,062**	1,252
Liabilities held for sale (Note 4)	**16,673**	(16,673)
Balance, end of period	**164,012**	159,504
Expected to be incurred within one year	**4,749**	4,749
Expected to be incurred beyond one year	**159,263**	154,755

The Company's decommissioning obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At June 30, 2023, the total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately $275.9 million (December 31, 2022 - $275.7 million).

The Company used an observable, market-based and inflation adjusted risk-free real rate of return to estimate the present value of the decommissioning obligation. At June 30, 2023, the Company used a discount rate of 1.39% (December 31, 2022 – 1.19%).

9. Share Capital

Issued and Outstanding Common Shares

	June 30, 2023		December 31, 2022	
($ 000s except share amount)	Common shares	$	Common shares	$
Balance, January 1	**158,963,336**	**275,882**	157,645,871	274,322
Shares issued on stock option exercise	**16,000**	**9**	1,317,465	1,560
Balance, end of period	**158,979,336**	**275,891**	158,963,336	275,882

Per Share Amounts

($ 000s except share amount)	Three months ended June 30 2023	2022	Six months ended June 30 2023	2022
Weighted average number of common shares (000s of shares)	**158,979**	157,865	**158,972**	157,759
Dilutive effect of options and warrants [1]	**495**	3,996	**719**	1,862
Weighted average common shares, diluted (000s of shares)	**159,474**	161,861	**159,691**	159,621

[1] For both the three and six months ended June 30, 2023 3.8 million options and all warrants were anti-dilutive (three months ended June 30, 2022 – 0.8 million options and nil warrants and six months ended June 30, 2022 – 4.4 million options and nil warrants).

10. Petroleum and Natural Gas Sales

The Company's petroleum and natural gas revenues are set out below.

($ 000s)	Three months ended June 30 2023	2022	Six months ended June 30 2023	2022
Natural Gas	**43,534**	76,084	**128,698**	145,027
Condensate	**19,219**	30,392	**44,896**	60,971
NGL	**6,472**	16,333	**17,481**	33,583
Sulphur	**2,823**	8,277	**6,374**	14,893
Total petroleum and natural gas sales [1]	**72,048**	131,086	**197,449**	254,474
Less:				
Gross royalties	**10,772**	38,764	**34,827**	70,718
Gas cost allowance	**(27,366)**	(15,338)	**(36,715)**	(28,160)
Royalty expense (recovery)	**(16,594)**	23,426	**(1,888)**	42,558
Third party processing	**4,434**	5,921	**10,282**	11,685
Other income	**1,127**	1,592	**5,910**	2,210
Third party processing and other income	**5,561**	**7,513**	**16,192**	13,895
Total	**94,203**	115,173	**215,529**	225,811

[1] Includes gains/losses on fixed price physical commodity sales contract but excludes financial risk management contracts

During the period ended June 30, 2023, the Company received notice from the Alberta Crown that it was to receive a refund of $18.4 million related to 2022 annual gas cost allowance ("GCA") credit. This adjustment was made by the Alberta Crown as part of their annual review of CGA typically conducted in the second quarter of the following year. The credit is included in the current period royalty recovery (expense).

Included in third party processing and other income, for the three and six months ended June 30, 2023, was gas processing revenue of $4.4 million and $10.3 million respectively (three and six months ended June 30, 2022 - $5.9 million and $11.7 million respectively) for fees charged to third parties for processing through facilities in which Pieridae has an ownership interest. The remaining fees are related to charges to third parties for transportation and marketing of commodities.

11. Finance Expense

The following is a summary of finance expenses:

($ 000s)	Three months ended June 30 2023	2022	Six months ended June 30 2023	2022
Cash portion of interest expense	**3,767**	4,253	**7,009**	8,464
Non-cash interest paid in kind	**1,792**	3,647	**4,442**	7,331
Accretion of financing costs	**3,268**	4,795	**8,039**	11,216
Loss on debt extinguishment (Note 6)	**6,859**	-	**6,859**	-
Accretion of decommissioning obligations (Note 8)	**548**	186	**1,062**	186
Interest on lease liabilities	**57**	31	**109**	61
Other finance charges	**65**	4	**(78)**	98
Total finance expense	**16,356**	12,916	**27,442**	27,356

12. Financial Instruments and Risk Management

Financial instruments at June 30, 2023, consist of accounts receivable, accounts payable, other amounts payable and term debt. The carrying value of these financial instruments approximate their fair values.

The Company has exposure to counterparty credit risk, liquidity risk and market risk. Pieridae recognizes that effective management of these risks is a critical success factor in managing organization and shareholder value. Risk management strategies, policies and limits ensure risks and exposures are aligned to the Company's business strategy and risk tolerance. The Board of Directors is responsible for providing risk management oversight and oversees how management assesses and monitors risk. The following analysis provides an assessment of those risks as at June 30, 2023.

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. The Company's credit risk arises principally from accounts receivable from natural gas marketers, partners in jointly owned assets and cash and cash equivalents held with major financial institutions.

The carrying amount of accounts receivable and risk management contracts represents the maximum credit exposure to the Company. As at June 30, 2023 and December 31, 2022, the Company's accounts receivables consisted of:

($ 000s)	**June 30, 2023**	**December 31, 2022**
Petroleum and natural gas marketers	**27,861**	49,087
Partners in jointly owned assets	**21,934**	24,189
Other (primarily government entities)	**1,712**	1,238
Total	**51,507**	74,514

As at June 30, 2023 and December 31, 2022, the Company's accounts receivables were aged as follows:

($ 000s)	**June 30, 2023**	**December 31, 2022**
Current (less than 90 days)	**39,811**	72,088
Past due (more than 90 days)	**11,696**	2,426
Total	**51,507**	74,514

The Company has assessed the past due receivables and determined that as at June 30, 2023, the recorded provision of $0.8 million was appropriate (December 31, 2022 – $0.8 million).

Capital management

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

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

The calculation of funds flow from operations is as follows:

	Three months ended June 30		**Six months ended June 30**	
($ 000s)	**2023**	**2022**	**2023**	**2022**
Cash provided by operating activities	**27,533**	34,922	**64,642**	38,134
Settlement of decommissioning obligations	**375**	498	**887**	1,636
Changes in non-cash working capital	**7,524**	8,042	**7,316**	38,547
Funds flow from operations	**35,432**	43,462	**72,845**	78,317

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 of three types of risk: commodity price risk, interest rate risk and currency risk.

a. Commodity price risk

The Company utilizes fixed price delivery contracts and derivative financial instruments as part of its overall risk management strategy to assist in managing the exposure to commodity price risk and the cost of power. Physical contracts are considered normal purchase or sales contracts and are recognized in petroleum and natural gas revenue or operating expense as contracts are settled.

On occasion, Pieridae's may elect to account for its financial risk management assets and cash flow hedges using hedge accounting. In these circumstances, the Company formally documents and designates, at inception, the qualifying hedging relationships which includes the identification of the hedging instrument, the hedged item, the nature of the risk being hedged, the Company's risk management objective and strategy for undertaking the hedge and how the hedging relationship will be assessed to meet hedge effectiveness requirements. Hedge effectiveness is evaluated by assessing the critical terms of the hedging relationship at inception, at the end of each reporting date and upon a significant change in the circumstances affecting hedge effectiveness. There was no hedge ineffectiveness at June 30, 2023.

For a cash flow hedge, the effective portion of the change in the unrealized fair value of the hedging instrument is recognized in other comprehensive income ("OCI"). Accumulated gains or losses are reclassified from OCI to earnings as amounts are settled throughout the term of the arrangement. Any portion of the change in the fair value of the hedging instrument related to hedge ineffectiveness is recognized in earnings or reclassed from OCI to earnings when applicable. In certain circumstances, financial instruments originally designated for the application of hedge accounting may be re-evaluated to no longer qualify as a hedging relationship and are redesignated from hedge accounting, in which case changes in their fair values over time are recognized in the consolidated statement of income. Financial risk management contracts that are not accounted for as cash flow hedges are classified as fair value through profit or loss.

These financial instruments are not used for trading or speculative purposes.

The Company had the following fixed price physical commodity sales contracts and power contracts in place at June 30, 2023:

Type of contract	Quantity	Time Period	Contract Price
Fixed Price - Natural Gas Sales	50,000 GJ/d	Jul 2023 – Oct 2023	CAD $4.38/GJ
Fixed Price - Natural Gas Sales	5,000 GJ/d	Jul 2023 – Oct 2026	CAD $3.31/GJ
Fixed Price – AECO/Nymex Differential	7,500 MMbtu/d	Jul 2023 – Oct 2023	USD $(1.18)/MMbtu
Fixed Price - Power Purchases	52 MW/h	Jul 2023 – Dec 2023	CAD $71.83/MWh
Fixed Price - Power Purchases	55 MW/h	Jan 2024 – Dec 2024	CAD $68.39/MWh
Fixed Price - Power Purchases	55 MW/h	Jan 2025 – Dec 2025	CAD $79.12/MWh
Fixed Price - Power Purchases	45 MW/h	Jan 2026 – Dec 2026	CAD $75.88/MWh
Fixed Price - Power Purchases	5 MW/h	Jan 2027 – Dec 2027	CAD $75.10/MWh

The Company had the following financial risk management contracts in place as at June 30, 2023:

Type of contract	Quantity	Time Period	Contract Price
AECO Natural Gas Swap	30,000 GJ/d	Jul 2023 – Oct 2023	CAD $1.89/GJ
AECO Natural Gas Swap	30,000 GJ/d	Jul 2023 – May 2026	CAD $3.10/GJ
AECO Natural Gas Swap	50,000 GJ/d	Nov 2023 – May 2026	CAD $3.30/GJ
AECO Natural Gas Swap	25,000 GJ/d	Nov 2023 – May 2027	CAD $3.62/GJ
AECO Natural Gas Swap	35,000 GJ/d	Jun 2026 – May 2027	CAD $3.95/GJ
WTI Crude Oil Swap (1)	500 bbl/d	Jul 2023 – Sep 2023	CAD $107.64/bbl
C5 to WTI Basis Differential Swap (1)	500 bbl/d	Jul 2023 – Sep 2023	CAD ($4.67)/bbl
WTI Crude Oil Collar	1,453 bbl/d	Jul 2023 – Dec 2023	CAD $80.00 - $90.75/bbl
WTI Crude Oil Collar	1,405 bbl/d	Jan 2024 – Dec 2024	CAD $80.00 - $90.75/bbl
WTI Crude Oil Collar	1,235 bbl/d	Jan 2025 – Dec 2025	CAD $80.00 - $90.75/bbl
WTI Crude Oil Collar	918 bbl/d	Jan 2026 – Dec 2026	CAD $80.00 - $90.75/bbl
WTI Crude Oil Collar	761 bbl/d	Jan 2027 – Dec 2027	CAD $80.00 - $90.75/bbl
WTI Crude Oil Swap	350 bbl/d	Jun 2026	CAD $82.33/bbl
WTI Crude Oil Swap	750 bbl/d	Jun 2027	CAD $78.75/bbl

(1) Financial risk management contracts where hedge accounting was not applied.

Changes in fair value of risk management asset and liabilities for the period ended June 30, 2023 are as follows:

($ 000s)	Financial Derivatives	Cashflow Hedges	Total
Fair value of asset (liability), balance January 1	251	-	251
Changes in fair value – profit or loss	4,121	-	4,121
Changes in fair value – OCI	-	9,272	9,272
Risk management contract settlements	(3,682)	-	(3,682)
Fair value of assets (liabilities), balance end of period	**690**	**9,272**	**9,962**
Risk management asset	690	10,530	11,220
Risk management liabilities	-	(1,258)	(1,258)

b. Interest rate risk

Interest rate risk is the risk that future cashflows will fluctuate as a result of changes in market interest rate. As at June 30, 2023, the Company's primary interest rate risk exposure was its variable rate long-term debt, and a 1.0% change in the interest rate would result in a $0.1 million change in interest expense.

c. Currency risk

Currency risk is the risk that cashflows will fluctuate as a result of changes in foreign currencies and the Canadian dollar. North American crude oil, natural gas and NGL prices are based upon US dollar denominated commodity prices. As a result, the price received by Canadian producers is affected by the Canadian/US dollar exchange rate. A small portion of the Company's accounts receivable, accounts payable, accrued liabilities and commitments are denominated in US dollars, UK pound sterling and Euro, however the impact of currency fluctuations are immaterial to these items. As at June 30, 2023, the Company's primary foreign exchange risk exposure was its US denominated long-term debt, and a 5.0% change in the foreign exchange rate would result in a $8.0 million change in the foreign exchange translation gain (loss) related to the long-term debt.

13. Presentation in Consolidated Statements of Cash Flows

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

	Three months ended June 30		Six months ended June 30	
($ 000s)	**2023**	**2022**	**2023**	**2022**
Changes in non-cash working capital				
Accounts receivable	**16,232**	5,611	**23,007**	(2,841)
Prepaid expenses and deposits	**(727)**	(2,783)	**(1,314)**	(2,257)
Inventories	**(252)**	(423)	**(411)**	(267)
Risk management contracts – current assets	**311**	-	**-**	-
Accounts payable and accrued liabilities	**(26,490)**	(4,091)	**(35,115)**	(26,271)
Risk management contracts – current liabilities	**(94)**	-	**-**	-
Total change in non-cash working capital	**(11,020)**	(1,686)	**(13,833)**	(31,636)
Relating to:				
Operating activities	**(7,524)**	(8,042)	**(7,316)**	(38,547)
Investing activities	**(3,496)**	6,356	**(6,517)**	6,911

14. Commitments

The following is a summary of the Company's contractual obligations and commitments as at June 30, 2023:

($ 000s)	**2023**	**2024**	**2025**	**2026**	**Thereafter**	**Total**
Interest on long-term debt [1]	11,970	25,406	17,502	16,124	5,135	76,137
Firm transportation	5,845	11,415	3,600	267	-	21,127
Total	**17,815**	**36,821**	**21,102**	**16,391**	**5,135**	**97,264**

[1] Interest on long-term debt includes the committed interest payments related to the debt refinancing. See Note 6 for long-term debt principal payments provided for on the Consolidated Statements of Financial Position.