

PARDEE RESOURCES COMPANY

2ND QUARTER 2022



Responsible Development of Natural Resource Properties
Integrity Creativity Excellence Respect Teamwork Family

To Our Shareholders:

During Q2 2022, Pardee Resources Company earned \$9.24 per share, an increase of 211% above the \$2.97 per share earned during Q2 2021. EBITDA during the quarter was \$14.74 per share, 144% higher than EBITDA of \$6.03 earned in 2021. Supported by strong commodity prices during the quarter, our Metallurgical Coal, Timber & Surface, and Oil & Gas Divisions achieved meaningful revenue improvements over Q2 2021 results. Quarterly revenues from our Alternative Energy Division were down versus last year due to a decline in both power production and the average realized price of our renewable energy credits. Despite high summer temperatures in both California and Portugal, our table grape and almond crops remain on track for a healthy harvest season.

Metallurgical Coal Division: Strong global coal and steel markets lifted U.S. metallurgical coal markets which were further strengthened by the fallout from the Ukraine War. While new U.S. longwall mines helped to meet demand, a limited supply response from Australia and Canada, together with equipment, labor, and transportation bottlenecks in the U.S., kept global supplies in check. As a result, 2022 domestic High Vol-A metallurgical coal contracts settled at record high prices of over \$180 per ton. At Pardee, a year-over-year production increase resulting from a new deep mine, coupled with stronger pricing, led to Q2 2022 Division revenues of \$6.3 million, 127% higher than our Q2 2021 results; while first half (H1) 2022 Division revenues totaled \$11.0 million, 140% above last year's results.

Oil & Gas Division: During Q2 2022 natural gas prices continued their upward momentum, but not without significant volatility. LNG exports and limited gas-to-coal switching led Appalachian Basin prices higher, from a monthly average of \$3.23 per MMBtu in January to \$6.49 per MMBtu in May. Prices then fell from their interim highs after an explosion in early June forced a major U.S. LNG export facility offline, crimping demand and prices. Late in the quarter, prices were trending upward again as a heatwave spread across the U.S. causing a natural gas demand surge from electric power producers. As a result of the strong pricing year-to-date, Pardee's H1 2022 Division revenues reached \$6.6 million, a 101% gain above H1 2021 Division revenues of \$3.3 million.

Timber & Surface Division: Strong markets during the quarter sustained hardwood lumber and log prices at elevated levels. Single-family housing starts for the first six months of the year were up 8% over the prior year period, while home remodeling expenditures increased 18%. Hardwood lumber exports through May were also up 21% in dollar value versus the prior year. During Q2 2022, Pardee's realized average hardwood stumpage price was \$374 per mbf, 21% higher than Q2 2021 levels. Meanwhile, our Q2 2022 hardwood production was down versus last year due to harvest timing variances, while H1 production year-over-year was flat as logging operations remained challenged by shortages of labor, equipment, and trucking services. Quarterly gains from our Virginia rural real estate initiatives were \$394,207, bringing the total for the first half of the year to \$1.3 million.

Alternative Energy Division: While high prices for oil, natural gas, and coal placed renewed urgency to develop solar generating capacity, U.S. installations during Q1 2022, which is the latest data available, were 21% lower than Q1 2021 and 52% lower than Q4 2021. The reduction in U.S. solar installations was due to a Department of Commerce tariff related investigation which halted solar module shipments to the U.S. from Asia, a constraint which is expected to remain through the end of 2022. Electricity production from Pardee’s renewable portfolio during Q2 2022 was 15.3% lower than during Q2 2021, due to both year-over-year weather variances and equipment-related outages. Meanwhile, our average SREC price dropped 17.5% versus Q2 2021, following the expiration of certain long-term contracts in New Jersey. Overall, quarterly Division revenues were \$992,000, a 23% decline versus our Q2 2021 results.

Agriculture Division: Despite the high summer temperatures recorded in both California and Portugal during Q2 2022, our table grapes and almond trees are developing well, and healthy harvests are expected in the fall. In California, our table grapes benefited from warm days and cool nights; while in Portugal, the plentiful water supplies allowed for irrigation sufficient to avoid the negative effects of hot weather. As reported in our Q1 2022 Report, we do not expect the current drought in the U.S. West to materially impact our table grape operations since both of our ranches have access to sufficient well water.

Summary: We are grateful for the skill, dedication, and hard work of our employees, whose daily contributions during the quarter provided for the Company’s ongoing success. Longer term, their efforts have helped position the Company to benefit fully from the recent strength in commodity prices. Following our improved operating performance year-to-date, we ended the quarter with \$28.8 million in cash, allowing the Company to meet its dual goals of returning capital to shareholders and investing for future growth.

*Please see page 6 for an update of legal matters.

Sincerely yours,



Chairman
Benjamin A. Burditt

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Pardee Resources Company
Unaudited Consolidated Balance Sheets

(Dollars in Thousands)

| | 06-30-22 | 12-31-21 |
|--|------------------|------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash & Cash Equivalents | \$28,831 | \$20,177 |
| Accounts Receivable | 7,040 | 7,758 |
| Prepaid Income Taxes | 0 | 121 |
| Other | 2,865 | 1,139 |
| | 38,736 | 29,195 |
| Fixed Assets: (Net of Depl. & Deprec.) | | |
| Land & Right of Ways | 27,485 | 27,921 |
| Mineral Rights - Coal | 33,053 | 33,153 |
| Timber | 9,842 | 10,032 |
| Solar Equipment | 19,870 | 20,525 |
| Building & Structures | 1,220 | 1,223 |
| Agriculture Development | 8,742 | 9,064 |
| Equipment | 442 | 428 |
| Automobiles | 171 | 188 |
| Other Fixed Assets | 1,308 | 1,261 |
| | 102,133 | 103,795 |
| Investments & Other | | |
| Oil & Gas Investments (Net of Depl. & Deprec.) | 35,161 | 36,402 |
| Equity Investments | 514 | 563 |
| Right of Use Asset | 3,454 | 3,578 |
| Other | 179 | 185 |
| Total Assets | \$180,177 | \$173,718 |
| LIABILITIES & EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$1,437 | \$3,175 |
| Deferred Revenues | 33 | 712 |
| Income Taxes Payable | 386 | 144 |
| Current Portion Lease Liability | 404 | 404 |
| | 2,260 | 4,435 |
| Noncurrent Liabilities: | | |
| Non-recourse Debt | 1,134 | 1,134 |
| Asset Retirement Liability | 56 | 56 |
| Supplemental Pension Plan | 496 | 510 |
| Deferred Revenue, Net of Current Portion | 567 | 390 |
| Deferred Taxes | 17,339 | 17,339 |
| Lease Liability | 3,400 | 3,531 |
| Other | 120 | 104 |
| Total Liabilities | 25,372 | 27,499 |
| Shareholder's Equity: | | |
| Common Stock | 775 | 775 |
| Additional Paid in Capital | 13,790 | 14,484 |
| Accumulated Other Comprehensive Income | (25) | (25) |
| Retained Earnings | 160,971 | 153,246 |
| Treasury Stock | (24,127) | (25,317) |
| | 151,384 | 143,163 |
| Noncontrolling Interest | 3,421 | 3,056 |
| Total Equity | 154,805 | 146,219 |
| Total Liabilities & Equity | \$180,177 | \$173,718 |

Pardee Resources Company
Unaudited Consolidated Income Statements

(Dollars in Thousands)

| | Three Months Ended <u>06-30-22</u> | Three Months Ended <u>06-30-21</u> | Six Months Ended <u>06-30-22</u> | Six Months Ended <u>06-30-21</u> |
|--|---|---|---|---|
| Divisional Revenues: | | | | |
| Metallurgical Coal | \$6,326 | \$2,793 | \$11,042 | \$4,598 |
| Oil & Gas | 3,558 | 1,594 | 6,647 | 3,304 |
| Timber & Surface | 2,055 | 1,759 | 5,119 | 2,991 |
| Alternative Energy | 992 | 1,289 | 1,697 | 2,022 |
| Agriculture | <u>107</u> | <u>(69)</u> | <u>145</u> | <u>(69)</u> |
| | <u>13,038</u> | <u>7,366</u> | <u>24,650</u> | <u>12,846</u> |
| Divisional Expenses: | | | | |
| Metallurgical Coal | 754 | 686 | 1,502 | 1,328 |
| Oil & Gas | 1,051 | 1,048 | 2,112 | 2,085 |
| Timber & Surface | 850 | 818 | 1,652 | 1,440 |
| Alternative Energy | 513 | 539 | 1,014 | 1,081 |
| Agriculture | <u>(59)</u> | <u>164</u> | <u>432</u> | <u>320</u> |
| | <u>3,109</u> | <u>3,255</u> | <u>6,712</u> | <u>6,254</u> |
| Net Operating Income | \$9,929 | \$4,111 | \$17,938 | \$6,592 |
| Interest and Other Income | 11 | 12 | 25 | 23 |
| Gain (Loss) on Equity Investment | 0 | 45 | (2) | 50 |
| General and Administrative | (1,590) | (1,503) | (3,331) | (3,033) |
| Interest Expense | <u>(6)</u> | <u>(7)</u> | <u>(13)</u> | <u>(14)</u> |
| Income Before Taxes | \$8,344 | \$2,658 | \$14,617 | \$3,618 |
| Taxes | <u>2,277</u> | <u>734</u> | <u>3,990</u> | <u>995</u> |
| NET INCOME | \$6,067 | \$1,924 | \$10,627 | \$2,623 |
| Net Loss - Noncontrolling Interest | <u>33</u> | <u>28</u> | <u>89</u> | <u>59</u> |
| Net Income - Pardee Resources Shareholders | <u>6,100</u> | <u>1,952</u> | <u>\$10,716</u> | <u>\$2,682</u> |
| EARNINGS PER SHARE | <u>\$9.24</u> | <u>\$2.97</u> | <u>\$16.23</u> | <u>\$4.08</u> |
| EBITDA PER SHARE | <u>\$14.74</u> | <u>\$6.03</u> | <u>\$26.30</u> | <u>\$9.33</u> |
| (earnings before interest, taxes, depreciation and amortization) | | | | |
| Weighted Average Number of Common Shares Outstanding | <u>660,112</u> | <u>657,227</u> | <u>660,112</u> | <u>657,227</u> |
| Common Dividend Per Share | <u>\$1.80</u> | <u>\$1.80</u> | <u>\$3.60</u> | <u>\$3.60</u> |
| Total Shareholder Return paid plus change in stock price) | | | <u>22.05%</u> | <u>23.61%</u> |

Pardee Resources Company
Comparison Data Sheet

| | Three Months Ended <u>06-30-22</u> | Three Months Ended <u>06-30-21</u> | % <u>Change</u> | Six Months Ended <u>06-30-22</u> | Six Months Ended <u>06-30-21</u> | % <u>Change</u> |
|--|---|---|------------------------|---|---|------------------------|
| Metallurgical Coal | | | | | | |
| Revenues - Millions | \$6.33 | \$2.79 | 126.9% | \$11.04 | \$4.60 | 140.0% |
| Production - Coal Tons - Millions | 0.72 | 0.49 | 46.9% | 1.35 | 0.84 | 60.7% |
| Royalty/Coal Ton | \$8.36 | \$3.84 | 117.7% | \$7.65 | \$3.66 | 109.0% |
| Oil & Gas | | | | | | |
| Revenues - Millions | \$3.56 | \$1.59 | 123.9% | \$6.65 | \$3.30 | 101.5% |
| Production - bcfe | 0.52 | 0.56 | -7.1% | 1.12 | 1.20 | -6.7% |
| Price/mcfe | \$6.57 | \$2.86 | 129.7% | \$5.83 | \$2.86 | 103.8% |
| Timber & Surface | | | | | | |
| Revenues - Millions | \$2.06 | \$1.76 | 17.0% | \$5.12 | \$2.99 | 71.2% |
| Production - Board feet - Millions | 3.47 | 4.20 | -17.4% | 8.27 | 8.01 | 3.2% |
| Stumpage Price/Thousand Bd. Ft. | \$374.29 | \$309.16 | 21.1% | \$384.12 | \$269.14 | 42.7% |
| Production - Softwood Tons - Thousands | 14.88 | 9.87 | 50.8% | 20.21 | 19.72 | 2.5% |
| Stumpage Price/Ton Softwood | \$14.95 | \$12.87 | 16.2% | \$15.03 | \$13.41 | 12.1% |
| Production - Hardwood Tons - Thousands | 9.97 | 17.71 | -43.7% | 25.72 | 28.56 | -9.9% |
| Stumpage Price/Ton Hardwood | \$2.91 | \$2.71 | 7.4% | \$2.90 | \$2.62 | 10.7% |
| Alternative Energy | | | | | | |
| Revenues - Millions | \$0.992 | \$1.289 | -23.0% | \$1.697 | \$2.022 | -16.1% |
| Production - k/w - Millions | 5.13 | 6.06 | -15.3% | 8.51 | 9.65 | -11.8% |
| Electric Sales Price per k/w | \$0.112 | \$0.111 | 0.9% | \$0.113 | \$0.113 | 0.0% |
| Production - SREC Units | 5,280 | 6,055 | -12.8% | 8,757 | 9,644 | -9.2% |
| SREC Price/Credit | \$80 | \$97 | -17.5% | \$82 | \$92 | -10.9% |
| NET DIVISIONAL OPERATING INCOME: | | | | | | |
| (Dollars in Millions) | | | | | | |
| Metallurgical Coal | \$5.57 | \$2.11 | 164.0% | \$9.54 | \$3.27 | 191.7% |
| Oil & Gas | 2.51 | 0.55 | 356.4% | 4.54 | 1.22 | 272.1% |
| Timber & Surface | 1.21 | 0.94 | 28.7% | 3.47 | 1.55 | 123.9% |
| Alternative Energy | 0.48 | 0.75 | -36.0% | 0.68 | 0.94 | -27.7% |
| Agriculture | 0.17 | (0.23) | 173.9% | (0.29) | (0.39) | 25.6% |
| Net Operating Income | <u>\$9.94</u> | <u>\$4.12</u> | 141.3% | <u>\$17.94</u> | <u>\$6.59</u> | 172.2% |
| EBITDA - Millions | <u>\$9.73</u> | <u>\$3.96</u> | 145.7% | <u>\$17.36</u> | <u>\$6.13</u> | 183.2% |
| (earnings before interest, taxes, depreciation and amortization) | | | | | | |

On December 7, 2007, Lexington Land Development, LLC (Lexington) filed litigation against certain parties in East Baton Rouge Parish, Louisiana. Lexington claims that their 48-acre parcel was contaminated by a release from a pipeline owned and operated by Shell Pipeline Company (Shell), as well as the oil and gas exploration and production activities of other various defendants, including Zinn Petroleum Company (Zinn). Lexington seeks various remedies, including remediation and damages. The Company is not a defendant in this case; however, the Company has a minority interest in certain leases and wells operated by Zinn, and, under joint operating agreements, the Company and certain other interest owners are responsible for their respective shares of any damages or judgments sustained by Zinn.

Under Louisiana law, this litigation triggered attention from regulatory agencies. The Louisiana environmental regulatory agencies required Shell and other defendants, including Zinn, to submit plans for assessing soil and ground water conditions at the site. Shell completed its assessment and remediation which was approved by the agencies. Zinn's environmental experts have concluded their assessment and determined that Zinn's operations, which began in 1992, have been in compliance with regulatory standards. Zinn's experts have further determined that the data indicating the presence of certain constituents in the soil and shallow groundwater are the result of either former closed production storage pits used by other operators before Zinn began operations on the property or natural environmental conditions. Zinn's experts have also opined that the presence of these constituents is, for the most part, within applicable regulatory standards and not harmful to the environment. Finally, Zinn's experts have found defects in the methodology used by the plaintiff's experts and recommend that decisions regarding the need for assessment/restoration, as may be appropriate, be done under the direction of the regulatory agency in order to achieve regulatory closure status for the site.

On October 16, 2019, the District Court dismissed the plaintiff's claims against co-defendant Chevron because they were not filed timely. The plaintiff appealed this decision. The District Court denied this appeal and the plaintiff subsequently requested a rehearing from the Court of Appeals. This request for rehearing was denied. The plaintiff later filed a request for discretionary review with the Louisiana Supreme Court which was denied. Discovery is not complete in this case, and a trial date has not been set.

Zinn is vigorously defending both the civil and regulatory actions. This action is subject to substantial uncertainties concerning the outcome of material factual and legal issues related to the litigation. Accordingly, we cannot currently predict the manner and timing of the resolution of these matters and are unable to estimate the amount of any possible losses, which could be material.

DC Solar Solutions, Inc.

In December 2015, the Company invested \$7.7 million in a limited liability company (Fund) that purchased mobile solar generators (MSGs) from DC Solar Solutions, Inc. (DC Solar) and, in turn, leased the MSGs to DC Solar Distribution, Inc., an affiliate of DC Solar. In early 2019, the Company learned through public sources that, in December 2018, the U.S. government seized substantially all of the assets of DC Solar and its affiliates. In February 2019, DC Solar and its affiliates, including our lessee, filed for Chapter 11 bankruptcy protection. In February 2019, an affidavit from a Federal Bureau of Investigation special agent was filed in the bankruptcy proceeding asserting that DC Solar was operating a fraudulent "Ponzi-like scheme" and that a majority of the MSGs sold to investors and a majority of the lease revenues claimed to have been received by DC Solar Distribution, Inc. may not have existed. The Chapter 11 proceedings were subsequently converted to Chapter 7 liquidations. Due to the bankruptcy proceedings being converted to Chapter 7, the Company evaluated its remaining equity investment value of \$485,332 and recorded an impairment charge in that amount as of December 31, 2018.

In 2019, an independent audit located and identified all of the 125 MSGs purchased by the Fund in 2015. On July 2, 2020, the DC Solar Bankruptcy Court entered an order authorizing the sale of the Fund's MSGs, along with those of the other DC Solar funds. The buyer conducted an inventory of the MSGs to be purchased and was able to locate only 113 of the Fund's 125 MSGs that had been located during the 2019 inventory. In September 2020, the buyer closed on its acquisition of the 113 MSGs, yielding \$412,225 in gross sale proceeds. As a result of the MSG sale, the Company was required to recapture the fifth unvested year related to the underlying investment tax credit that the original investment yielded. In 2015, the investment allowed the Company to claim a \$5.6 million investment tax credit which requires a five-year holding period. The accounting for this investment tax credit in 2015 created a \$5.6 million tax asset while recording a direct write-off to the equity investment's carrying value. In 2020, the 20% investment tax credit recapture restored the investment's carrying amount to \$1.1 million or 20% of the original investment tax credit claimed. Subsequently, the Company recorded a \$1.1 million charge to 2020 pre-tax earnings related to this recapture. For tax purposes, the \$1.1 million charge is not tax deductible, and 20% of the original tax asset was removed from the Balance Sheet.

The Company remains vigorously engaged with other DC Solar investors, which include several major insurance companies and banks, to determine the best path forward to protect our interests and minimize the financial impact on the Company arising from the DC Solar fraud. Due to various substantial uncertainties, the Company is currently unable to determine the financial impact, if any, arising from this complex situation; however, this impact could be as much as \$6.1 million, which includes related tax impacts.

Forward Looking Statement

Certain of the statements contained herein (other than statements of historical facts) are forward-looking statements. Such forward-looking statements include estimates and assumptions related to the Company's growth, reserves, the state of future markets for natural resource, renewable and agricultural products, and the ability of the Company to sell its natural resource, renewable and agricultural products on a profitable basis. These forward-looking statements are subject to change and uncertainty which are, in many instances, beyond the Company's control and have been made based upon management's expectations and beliefs concerning future developments and their potential effect on the Company. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management. Actual financial results, including revenue growth and earnings results, could differ materially from those anticipated by the Company depending on the outcome of certain factors, which may include, among others, changes in the wholesale prices for timber, oil, natural gas, coal, renewable and agricultural products; increases in property acquisition costs; adverse weather conditions; litigation; failures of our lessees to mine, drill and harvest at rates we currently anticipate; differences between actual reserves and estimated amounts; legislative changes or government regulations which make it more difficult or expensive to sell, extract or harvest our natural resource, renewable and agricultural products or impose greater financial burdens on the users of such products; unanticipated costs for remediation and reclamation; the scope of the fraud alleged to have been conducted by DC Solar; and other risks and uncertainties.

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