PRAIRIE STORM RESOURCES CORP.

Interim Condensed Consolidated Financial Statements

March 31, 2021

(unaudited)

PRAIRIE STORM RESOURCES CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of Canadian Dollars) *(unaudited)*

	Notes	March 31, 2021	December 31, 2020
Assets			
Current assets			
Cash and cash equivalents		$ 6,701	$ 4,853
Accounts receivable		2,490	2,127
Prepaid expenses and deposits		449	390
		9,640	7,370
Property, plant and equipment	4	93,488	97,197
Total assets		$ 103,128	$ 104,567
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 2,629	$ 2,390
Fair value of commodity contracts	12	263	129
Lease obligations	6	327	334
		3,219	2,853
Fair value of commodity contracts		-	28
Lease obligations	6	621	689
Decommissioning liabilities	7	31,656	33,362
Deferred income taxes		849	782
		36,345	37,714
Shareholders' equity			
Share capital	8(a)	65,801	65,801
Contributed surplus	8(c)	15,796	15,512
Deficit		(14,814)	(14,460)
		66,783	66,853
Total liabilities and shareholders' equity		$ 103,128	$ 104,567

Commitments (note 14)

See accompanying notes to the interim condensed consolidated financial statements.

PRAIRIE STORM RESOURCES CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Expressed in thousands of Canadian Dollars, except per share amounts) *(unaudited)*

	Notes	Three months ended March 31, 2021	Three months ended March 31, 2020
Revenue			
Production revenue	9	$ 5,956	$ 4,850
Processing income	9	112	141
Royalties		(613)	(419)
		5,455	4,572
Realized gain (loss) on commodity contracts	12	(151)	523
Unrealized gain (loss) on commodity contracts	12	(106)	3,725
		5,198	8,820
Expenses			
Field operations		2,188	2,241
Transportation and marketing		10	16
General and administrative		750	783
Stock-based compensation	8(c)	284	-
Depletion and depreciation	4	2,071	2,519
		5,303	5,559
Income (loss) from operations		(105)	3,261
Finance costs	10	(182)	(109)
Income (loss) before income taxes		(287)	3,152
Deferred income taxes		67	661
Net income (loss) and comprehensive income (loss)		$ (354)	$ 2,491
Net income (loss) per share			
Basic	8(d)	$ -	$ 0.03
Diluted	8(d)	$ -	$ 0.03

See accompanying notes to the interim condensed consolidated financial statements.

PRAIRIE STORM RESOURCES CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in thousands of Canadian Dollars) *(unaudited)*

	Notes	Three months ended March 31, 2021	Three months ended March 31, 2020
Share Capital			
Balance, beginning and end of period		$ 65,801	$ 70,242
Contributed surplus			
Balance, beginning of period		$ 15,512	$ -
Stock-based compensation	8(c)	284	-
Balance, end of period		$ 15,796	$ -
Retained Earnings (deficit)			
Balance, beginning of period		$ (14,460)	$ 4,599
Net income (loss) for the period		(354)	2,491
Balance, end of period		$ (14,814)	$ 7,090
Total Shareholders' Equity		$ 66,783	$ 77,332

See accompanying notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian Dollars) *(unaudited)*

	Notes	Three months ended March 31, 2021	Three months ended March 31, 2020
Cash provided by (used) in:			
Operations			
Net income (loss) for the period		$ (354)	$ 2,491
Non-cash and other items			
Unrealized loss (gain) on commodity contracts	12	106	(3,725)
Stock-based compensation	8(c)	284	-
Depletion and depreciation		2,071	2,519
Deferred income taxes		67	661
Finance costs	10	169	112
Decommissioning expenditures	7	-	(104)
Change in non-cash working capital	11	(209)	350
Net cash flows from operating activities		2,134	2,304
Financing			
Payments on lease obligations	6	(87)	(54)
Net cash flows used in financing activities		(87)	(54)
Investing			
Property, plant and equipment expenditures	4	(225)	(10)
Change in non-cash working capital	11	26	(165)
Net cash flows used in investing activities		(199)	(175)
Change in cash and cash equivalents		1,848	2,075
Cash and cash equivalents, beginning of period		4,853	4,340
Cash and cash equivalents, end of period		$ 6,701	$ 6,415

See accompanying notes to the interim condensed consolidated financial statements.

1. CORPORATE INFORMATION

Prairie Storm Resources Corp. ("Prairie Storm" or the "Company") (formerly Quendale Capital Corp. ("Quendale")) is a public company trading on the TSX-V exchange under the symbol PSEC. Quendale was incorporated under the laws of British Columba, Canada on February 1, 2018 as a Capital Pool Corporation. Through a reverse takeover ("RTO") on December 16, 2020, Quendale acquired all the issued and standing shares of Prairie Storm Energy Corp. ("Prairie Energy"), and changed its name to Prairie Storm Resources Corp. The RTO transaction has been accounted for in the consolidated financial statements as a continuation of the financial statements of Prairie Energy, together with a deemed issuance of shares to the former shareholders of Quendale. The presentation of the comparative year's information is that of Prairie Energy.

The principal and head office of the Company is located at 2000, 350 – 7th Ave SW, Calgary, AB T2P 3N9. The registered office of the Company is located at Suite 2600, 595 Burrard Street, Suite 2600, Vancouver, BC V7X 1L3.

The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves in western Canada. The consolidated financial statements of the Company are comprised of the accounts of Prairie Storm Resources Corp., and its wholly owned subsidiaries Prairie Storm Energy Corp., and 1986272 Alberta Ltd.

2. BASIS OF PREPARATION

a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - *Interim Financial Reporting*. Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

These interim condensed consolidated financial statements use the accounting policies which the Company applied in its annual consolidated financial statements for the year ended December 31, 2020. The interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on May 27, 2021.

3. COVID-19 ESTIMATION UNCERTAINTY

During the three months ended March 31, 2021, the global economy continued to show signs of recovery from the impacts of the COVID-19 pandemic. The outlook for crude oil demand has improved due to the easing of restrictions combined with the distribution of vaccines in developed countries. Global spot prices for crude oil have recovered to pre-pandemic levels as optimism for demand recovery improves and OPEC continues to adhere to production curtailments that limit supply. While the Company has benefited from these recent improvements in crude oil prices, there remains a degree of uncertainty related to the COVID-19 and OPEC production curtailments that has been considered in the estimates for the three months ended March 31, 2021.

(Tabular amounts expressed in thousands of Canadian Dollars) (unaudited)

4. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the Company's PP&E assets:

	Petroleum and natural gas assets	Office equipment	Right-of-use assets	Total
Cost				
Balance, December 31, 2019	$ 133,483	$ 282	$ 1,018	$ 134,783
Additions	188	50	782	1,020
Dispositions	-	-	(624)	(624)
Decommissioning liabilities	2,908	-	-	2,908
Balance, December 31, 2020	136,579	332	1,176	138,087
Additions	218	7	-	225
Decommissioning liabilities	(1,863)	-	-	(1,863)
Balance, March 31, 2021	$ 134,934	$ 339	$ 1,176	$ 136,449
Accumulated depletion and depreciation				
Balance, December 31, 2019	$ (31,400)	$ (276)	$ (188)	$ (31,864)
Depletion and depreciation	(9,039)	(8)	(338)	(9,385)
Dispositions	-	-	359	359
Balance, December 31, 2020	(40,439)	(284)	(167)	(40,890)
Depletion and depreciation	(1,990)	(4)	(77)	(2,071)
Balance, March 31, 2021	$ (42,429)	$ (288)	$ (244)	$ (42,961)
Net carrying value				
December 31, 2020	$ 96,140	$ 48	$ 1,009	$ 97,197
March 31, 2021	$ 92,505	$ 51	$ 932	$ 93,488

Future development costs of $215.0 million (December 31, 2020 – $215.0 million) were included in the depletable costs as these costs are necessary to bring the proved and probable reserves into production.

At March 31, 2021, there were no indicators of impairment and accordingly, an impairment test was not required.

At December 31, 2020, the Company determined there were no indicators of impairment present and therefore an impairment test was not required.

At March 31, 2020, the Company determined indicators of impairment were present due to a decline in forecasted commodity benchmark prices. As a result, the Company compared the carrying value of its only CGU to its recoverable amount. For the purpose of impairment testing, the recoverable amount of the Company's CGU is the greater of its value in use and its fair value less costs to sell. Value in use is generally the future cash flows expected to be derived from production of proven and probable reserves. In determining the future cash flows, the Company utilized the following benchmark prices:

	WTI Oil (US$/bbl)	CLS Oil (CAD$/bbl)	AECO Gas (CAD$/mmbtu)	Exchange Rate ($US/$CAD)
2020	$ 29.17	$ 29.22	$ 1.74	$ 0.71
2021	40.45	46.85	2.20	0.73
2022	49.17	59.72	2.38	0.75
2023	53.28	65.02	2.45	0.75
2024	55.66	68.43	2.53	0.75
2025	56.87	69.81	2.60	0.75
2026	58.01	71.24	2.66	0.75

(Tabular amounts expressed in thousands of Canadian Dollars) (unaudited)

	WTI Oil (US$/bbl)	CLS Oil (CAD$/bbl)	AECO Gas (CAD$/mmbtu)	Exchange Rate ($US/$CAD)
2027	59.17	72.70	2.72	0.75
2028	60.35	74.19	2.79	0.75
2029	61.56	75.71	2.85	0.75
2030	62.79	77.22	2.92	0.75
Escalation rate of 2% thereafter				

At March 31, 2020, the recoverable amount of the Company's CGU, using value in use and discounted at a pre-tax rates between 10% and 25% dependent on the risk profile of the reserve category, exceeded its carrying value and no impairment was required.

5. BANK DEBT

As at March 31, 2021, the Company had drawn $nil on its existing credit facility. The credit facility consists of a $10 million extendible revolving credit facility and will revolve until May 31, 2021. At the request of the Company and with the consent of the bank, the facility may be renewed for a period not to exceed 364 days. If not extended, the facility will cease to revolve, the margins will increase by 0.50%, undrawn amounts will be permanently cancelled, and all outstanding advances thereunder will become repayable in one year from the extension date.

Interest is payable monthly in arrears, at rates varying from 2.25% to 3.75% over the bank's prime lending rate depending on the Company's debt to EBITDA ratio. Standby fees on the undrawn portion of the facility are paid monthly in arrears, at rates varying from 0.8% to 1.2% depending on the Company's debt to EBITDA ratio. At March 31, 2021, the Company's applicable pricing included a 2.25% margin on prime lending and a 0.8% standby fee on the undrawn portion of the facility. For the period ended March 31, 2021, the effective interest rate for the bank debt was approximately 4.7%.

The credit facility is secured by a $100 million Demand Debenture conveying a first floating charge (with a right to fix) over all the assets of the Company.

6. LEASE OBLIGATIONS

The Company incurs lease payments related to the Company's head office lease, leased vehicles, certain production equipment and various surface leases. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets.

	March 31, 2021	December 31, 2020
Lease obligations, beginning of period	$ 1,023	$ 860
Additions	-	782
Revisions	-	(265)
Payments	(87)	(388)
Interest	12	34
Lease obligations, end of period	$ 948	$ 1,023

	March 31, 2021	December 31, 2020
Current portion	$ 327	$ 334
Long-term portion	621	689
Lease obligations	$ 948	$ 1,023

(Tabular amounts expressed in thousands of Canadian Dollars) (unaudited)

The undiscounted cash flows relating to the lease obligations are as follows:

	March 31, 2021	December 31, 2020
Less than 1 year	$ 327	$ 335
1 – 3 years	526	597
After 3 years	196	204
Total undiscounted future lease payments	1,049	1,136
Total undiscounted future interest payments	(101)	(113)
Present value of lease obligations	$ 948	$ 1,023

7. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities are based on the Company's net ownership in wells and facilities along with management's estimated costs to abandon and reclaim those wells and facilities, as well as the estimated timing of these costs.

	March 31, 2021	December 31, 2020
Decommissioning liabilities, beginning of period	$ 33,362	$ 30,581
Revisions	(1,863)	2,908
Liabilities settled	-	(388)
Government grant for decommissioning expenditures	-	(112)
Accretion	157	373
Decommissioning liabilities, end of period	$ 31,656	$ 33,362

The inflated, undiscounted amount of future cash flows required to settle the liabilities is estimated to be $38.8 million (December 31, 2020 – $38.1 million). The liabilities were calculated using a risk-free interest rate of 1.97% (December 31, 2020 – 1.21%) and an inflation rate of 1.69% (December 31, 2020 – 1.49%). It is expected that the liabilities will be funded from general Company resources at the time the costs are incurred. The operating lives of the underlying assets are estimated to be between two and 50 years, with an average life of 10 years.

8. SHAREHOLDERS' EQUITY

a) Share capital

During the year ended December 31, 2020, a group of investors comprised of management, directors and employees of the Prairie Energy and certain other investors external to Prairie Energy, completed the purchase of all of the issued and outstanding common shares of Prairie Energy that were owned by the previous major shareholder. Prairie Energy then completed a reorganization whereby the common shares were redesignated as Class A Common Shares ("Class A Shares") and a new class of Class B common shares ("Class B Shares") were created. Certain Class A Shares were exchanged for an equal number of Class B Shares, and Prairie Energy returned $5.0 million to those holders as a return of capital. The Class B Shares were then subsequently exchanged for an equal number of Class A Shares.

Transaction costs in the amount of $360 thousand have been incurred in respect of the above transactions.

With the RTO, the Class A Shares of Prairie Energy were cancelled and exchange for common shares of the Company.

The Company is authorized to issue an unlimited number of common shares and preferred shares, of which only common shares have been issued.

(Tabular amounts expressed in thousands of Canadian Dollars) (unaudited)

Common/Class A shares issued and outstanding	Number of shares	Amount
Balance, December 31, 2019	76,332	70,242
Exchanged for Class B shares	(23,382)	(21,544)
Exchanged from Class B shares	23,382	16,544
Exchanged on reverse takeover	(76,332)	(65,242)
Issued on reverse takeover	143,750	65,756
Existing reverse takeover target shares	3,460	-
Issued on exercise of options	200	45
Balance, December 31, 2020 and March 31, 2021	147,410	$ 65,801

Class B shares issued and outstanding	Number of shares	Amount
Balance, December 31, 2019	-	$ -
Exchanged from Class A shares	23,382	21,544
Return of capital	-	(5,000)
Exchanged for Class A shares	(23,382)	(16,544)
Balance, December 31, 2020 and March 31, 2021	-	$ -

b) Stock options

The Company's stock option plan is administered by the Board of Directors, or a special committee thereto, which sets the exercise price, vesting provision and expiry dates of the options, provided that no option will have a term exceeding 10 years and the number of options outstanding shall not exceed 10% of the number of shares outstanding from time to time. Concurrent with the RTO, the Company revalued the existing 200,000 Quendale options and granted 11,675,000 incentive stock options.

The following table summarizes the stock option activity during the three months ended March 31, 2021 and year ended December 31, 2020.

	March 31, 2021		December 31, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	11,675	$ 0.20	205,827	$ 1.67
Granted	-	-	11,675	0.20
Existing reverse takeover target options	-	-	200	0.15
Exercised	-	-	(200)	0.15
Cancelled/forfeited	-	-	(205,827)	1.67
Balance, end of period	11,675	$ 0.20	11,675	0.20
Exercisable, end of period	-	$ -	-	$ -

The weighted average contractual term of all outstanding options as at March 31, 2021 is 4.71 years. The options granted vest 1/3 on each of the first, second and third anniversaries of the date of grant and have a term of five years.

c) Stock-based compensation expense

Prior to cancellation of all stock options in June, 2020, no share-based compensation charge was recognized in the financial statements as it was not probable that a Fundamental Change (as such term was defined in the Company's prior stock option plan) was likely to occur. As a result of the cancellation of the stock options and in accordance with

(Tabular amounts expressed in thousands of Canadian Dollars) (unaudited)

IFRS 2 – *Share-based Payment*, $15.4 million was recognized as stock-based compensation expense (with a corresponding increase to contributed surplus), representing the grant date fair value of the options based on a Black-Scholes option pricing model using the following assumptions:

	Date of Grant			
	February 2015	**February 2016**	**August 2016**	**February 2017**
Number of options	177,362	8,759	4,379	15,327
Expected life (years)	5.5	5.0	4.8	4.5
Risk free interest rate (%)	0.62	0.61	0.65	1.11
Expected volatility (%)	64	64	64	64
Expected dividend yield (%)	-	-	-	-
Estimated forfeiture rate (%)	-	-	-	-
Fair value per option ($)	0.08	0.07	0.07	0.07

On December 16, 2020, concurrent with the RTO, the Company issued 11,675,000 options with an exercise of price $0.20. The Company also revalued the existing 200,000 Quendale options. The fair values of each set of options were estimated on the date of grant/revaluation based on a Black-Scholes option pricing model using the following assumptions:

	Grant	**Revaluation**
Number of options	11,675	200
Share price	0.20	0.20
Exercise price	0.20	0.15
Expected life (years)	5.0	1.0
Risk free interest rate (%)	0.45	0.25
Expected volatility (%)	113	68
Expected dividend yield (%)	-	-
Estimated forfeiture rate (%)	-	-
Fair value per option ($)	0.16	0.08

For the quarter ended March 31, 2021, the Company recognized $284 thousand (March 31, 2020 – $nil) as stock-based compensation. In the fourth quarter of 2020, the Company recognized $94 thousand as stock-based compensation expense with a corresponding increase to contributed surplus.

In 2020, as a result of the revaluation of options, the Company recognized $15 thousand as a component of the consideration in the RTO, with a corresponding increase to contributed surplus. During the year ended December 31, 2020, these options were exercised and the contributed surplus amount was transferred to share capital.

(Tabular amounts expressed in thousands of Canadian Dollars) (unaudited)

d) Earnings per share

The following table reconciles the denominators used for the basic and diluted net income per share calculations:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Weighted average number of common shares	147,410	76,332
Diluted weighted average number of common shares	147,410	76,332

The calculation of the diluted net income (loss) per share for the three months ended March 31, 2021 and 2020 excludes the effect of all stock options as their impact would have been anti-dilutive.

9. REVENUE

The Company sells its production pursuant to variable-price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis. Revenue is recognized when a unit of production is delivered to the customer.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The following table details the Company's petroleum and natural gas sales by product:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Production revenue		
Crude oil	$ 3,127	$ 3,062
Natural gas liquids	1,282	669
Natural gas	1,547	1,119
	5,956	4,850
Processing income	112	141
Total revenue	$ 6,068	$ 4,991

10. FINANCE COSTS

The following is a breakdown of the Company's finance costs:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Interest and borrowing costs	$ 20	$ 18
Interest income	(7)	(21)
Accretion on decommissioning liabilities	157	101
Interest on lease obligations	12	11
Total finance costs	$ 182	$ 109

(Tabular amounts expressed in thousands of Canadian Dollars) (unaudited)

11. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

	Three months ended March 31, 2021	Three months ended March 31, 2020
Source (use) of cash		
Accounts receivables	$ (363)	$ 624
Prepaid expenses and deposits	(59)	(10)
Accounts payable and accrued liabilities	239	(429)
Change in non-cash working capital	$ (183)	$ 185
Change related to:		
Operating activities	$ (209)	$ 350
Investing activities	26	(165)
Change in non-cash working capital	$ (183)	$ 185
Interest paid	$ -	$ -

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments recognized on the statement of financial position consist of cash and cash equivalents, accounts receivable, fair value of commodity contracts, accounts payable and accrued liabilities, and bank debt when applicable. The carrying value of these financial instruments approximate their fair value due to the short-term nature of the instruments. Bank debt bears a floating rate of interest and margins charged by the lender are indicative of current credit spreads and therefore carrying value approximates fair value.

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities. The Company has exposure to credit, liquidity and market risk.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, set appropriate limits and controls and to monitor risks and adherence to market conditions and the Company's activities.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included in these financial statements.

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. This is principally the carrying amount of the cash and cash equivalents, accounts receivable and commodity contracts.

The cash and cash equivalents are held by a Schedule 1 financial institution.

Substantially all of the Company's accounts receivable are with customers and joint interest partners in the oil and natural gas industry and are subject to normal industry credit risks. The Company markets its petroleum and natural gas to several marketers so that the exposure to any one entity is minimized. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. At March 31, 2021, three (December 31, 2020 – three) of these marketers owed the Company $1.7 million (December 31, 2020 - $1.4 million), which amounts were subsequently received. Receivables from partners are typically collected within one to three months of the billing being issued, however collection is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling, and disputes amongst partners. The Company attempts to mitigate credit risk from partners by obtaining partner approval of significant capital costs prior to expenditure. While the Company does not typically obtain collateral from partners, it may cash call a partner in advance of the work being done. In addition, the Company has the ability to withhold production from partners in the event of non-payment. Should any of the Company's customers or partners be unable to settle amounts due, the impact on the Company could be significant.

(Tabular amounts expressed in thousands of Canadian Dollars) (unaudited)

The risk management contracts are with a Schedule 1 financial institution.

The Company's maximum exposure to credit risk is as follows:

	March 31, 2021	December 31, 2020
Cash and cash equivalents	$ 6,701	$ 4,853
Accounts receivable	2,490	2,127
Total	$ 9,191	$ 6,980

When determining whether past due accounts are collectible, the Company factors in the past credit history of the counter parties. The Company has accrued an allowance for doubtful accounts based on its expected credit loss model and all remaining amounts greater than 90 days are considered to be collectible. During the three months ended March 31, 2021, the Company wrote off $nil in accounts receivable (March 31, 2020 - $nil). As at March 31, 2021, there was $3 thousand (December 31, 2020 - $14 thousand) of accounts receivable 90 days past due.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, under a reasonable range of outcomes, that it will have sufficient liquidity to meet its liabilities when due. The Company's financial liabilities consist of accounts payable and accrued liabilities, fair value of commodity contracts and bank debt, when outstanding.

The Company ensures that is has sufficient funds available to meet expected operational and capital expenses for a reasonable period. To achieve this objective, the Company prepares annual operational and capital expenditure budgets which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures to further manage capital expenditures. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its available cash and existing credit facility. At March 31, 2021, the Company had an adjusted working capital surplus (defined as current assets less current liabilities, exclusive of lease obligations and the fair value of commodity contracts) of $7.0 million (December 31, 2020 – $5.0 million).

The following table details the Company's financial liabilities as at March 31, 2021:

	Carrying value	Contractual cash flow	Less than one year	One-three years	Greater than three years
Accounts payable and accrued liabilities	$ 2,629	$ 2,629	$ 2,629	$ -	$ -
Lease obligations	948	1,049	327	526	196
Total	$ 3,577	$ 3,678	$ 2,956	$ 526	$ 196

(Tabular amounts expressed in thousands of Canadian Dollars) (unaudited)

Market Risk

Market risk is the risk that changes in market prices such as commodity prices, interest rates, and foreign exchange rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

Commodity price risk

The Company's operational results and financial condition are largely dependent on the commodity price received for its petroleum and natural gas production. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, weather, and economic and geopolitical factors.

The Company attempts to mitigate commodity price risk by hedging a portion of its petroleum and natural gas production through various financial commodity contracts. The Company does not apply hedge accounting to these contracts. The Company's physical production is sold using spot or near-term contracts, with prices fixed at the time of custody transfer or on the basis of a monthly average market price.

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

As at March 31, 2021, the following commodity contracts were outstanding:

Commodity	Contract type	Term	Notional volume	Price	Reference
Gas	Fixed price	Apr 1/21 – Oct 31/21	2,000 gj/d	$2.00	AECO
Gas	Fixed price	Nov 1/21 – Mar 31/22	1,000 gj/d	$2.30	AECO

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's bank debt and cash and cash equivalents, which are subject to floating interest rates. Assuming all other variables remain constant, an increase or decrease of 1 percent in the effective interest rate would have an immaterial impact on pre-tax earnings for the three months ended March 31, 2021, based on average bank debt and cash and cash equivalents outstanding during the year.

Foreign exchange rate risk

Foreign exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada are impacted by changes in the exchange rate between the Canadian and United States dollar and the impact of such exchange rate fluctuations cannot be accurately quantified. The Company had no forward exchange rate contracts in place, nor any working capital items denominated in foreign currencies, as at or during the three months ended March 31, 2021.

13. CAPITAL MANAGEMENT

The Company's objective for managing capital is to maintain a strong statement of financial position and capital base to provide financial flexibility which will allow it to execute on its capital expenditure program. The Company evaluates its ability to carry on business as a going concern on a quarterly basis. The Company considers its capital structure to include share capital, long-term debt and adjusted working capital (defined as current assets less current liabilities, exclusive of lease obligations and the fair value of commodity contracts). The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust capital spending, issue new shares or issue new debt.

(Tabular amounts expressed in thousands of Canadian Dollars) (unaudited)

The Company manages and monitors its capital structure and short-term financing requirements using the ratio of net debt (long-term debt less adjusted working capital) to adjusted funds flow. Adjusted funds flow is calculated based on cash flows from operating activities before changes in non-cash working capital, transaction costs, and decommissioning expenditures incurred, and is annualized from the most recent quarter. This metric is used to monitor the Company's overall debt position and monitor the strength of the Company's statement of financial position. The Company monitors this ratio and uses this as a key measure in making decisions regarding financing and capital spending. The objective is to maintain this ratio below 2.0:1, although it may increase at certain times as a result of acquisitions or other significant capital expenditures for which the full annualized effect of adjusted funds flow has not yet been accounted for. As at March 31, 2021, the ratio of net debt to adjusted funds flow was n/a (December 31, 2020 – n/a), calculated as follows:

Net debt	**March 31, 2021**	**December 31, 2020**
Working capital	$ 6,421	$ 4,517
Fair value of commodity contracts	263	129
Lease obligations	327	334
Adjusted working capital (net debt)	$ 7,011	$ 4,980

Adjusted funds flow	**Three months ended March 31, 2021**	**Three months ended December 31, 2020**
Cash flow from operations	$ 2,134	$ 859
Decommissioning expenditures	-	55
Transaction costs	-	485
Changes in non-cash working capital	209	(17)
Adjusted funds flow	$ 2,343	$ 1,382
Annualized adjusted funds flow	$ 9,372	$ 5,528
Net debt to annualized adjusted funds flow	n/a	n/a

The Company is not subject to any externally imposed restrictions on capital, however its credit facility is subject to periodic reviews (note 5) and contains certain covenants regarding the volume and length of hedging activities.

14. COMMITMENTS

As at March 31, 2021, the Company had commitments as follows:

Commitment	**2021**	**2022**	**2023**	**Thereafter**	**Total**
Transportation	$ 224	$ 175	$ 20	$ 7	$ 426