MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") should be read in conjunction with Prairie Storm Resources Corp.'s ("Prairie Storm" or the "Company") unaudited interim condensed consolidated financial statements as at and for the periods ended June 30, 2021 and the audited consolidated financial statements as at and for the year ended December 31, 2020. The unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards ("IAS") Board.

The Company uses certain non-IFRS measures in this MD&A. For a discussion of these measures, please refer to the section entitled "Non-IFRS Measurements" below.

All amounts are in Canadian dollars and all tabular amounts are stated in thousands except per share amounts or as otherwise stated.

The comparative information provided herein is that of Prairie Storm Energy Corp. (see Description of Business below).

Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR under the Company's profile at www.sedar.com and on the Company's website at www.prairiestormresources.com.

This MD&A is current as at August 18, 2021.

DESCRIPTION OF BUSINESS

On December 16, 2020, the Company, then called Quendale Capital Corp ("Quendale"), and a wholly owned subsidiary completed an amalgamation with Prairie Storm Energy Corp., ("Prairie Energy") a private oil and gas company, which resulted in the reverse take-over of Quendale by Prairie Energy (the "RTO"). In conjunction with the RTO, Quendale changed its name to Prairie Storm Resources Corp.

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 Energy, and 1986272 Alberta Ltd.

NON-IFRS FINANCIAL MEASUREMENTS

Included in the MD&A are references to certain financial measures commonly used in the oil and natural gas industry, such as field netbacks and operating netbacks. These measures have no standardized meanings, are not defined by IFRS, and accordingly are referred to as non-IFRS measures. The determination of these measures may not be comparable to the same as reported by other companies and should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net income as determined by IFRS as an indicator of the Company's performance or liquidity.

Field netbacks are used by management to assess operating results between periods and between peer companies as they provide an indication of results generated by the Company's principal business activities before the consideration of how these activities are financed or how the results are taxed. Field netbacks are calculated by taking production and processing revenue and deducting royalties, field operations, and transportation and marketing expenses.

Operating netbacks are field netbacks, plus or minus realized gains or losses on commodity contracts.

OTHER MEASUREMENTS

The reporting and measurement currency of this MD&A is the Canadian dollar.

Reported production represents Prairie Storm' ownership share of sales before the deduction of royalties. Where amounts are expressed on a barrel of oil equivalent ("boe") basis, natural gas has been converted at a ratio of six thousand cubic feet to one boe. Boe's may be misleading, particularly if used in isolation. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalent of 6:1, utilizing a value conversion of 6:1 basis may be misleading. References to natural gas liquids ("liquids") include condensate, propane, butane and ethane, and one barrel of liquids is considered to be equivalent to one boe.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS

Certain disclosures set forth in this MD&A constitute forward-looking statements. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "believes", "budget", "continue", "could", "estimate", "forecast", "intends", "may", "plan", "predicts", "projects", should", "will" and other similar expressions. All estimates and statements that describe the Company's future, goals, or objectives, including management's assessment of future plans and operations, may constitute forward-looking information under securities laws. Forward-looking statements involve known and unknown risks and uncertainties which include, but are not limited to: exploration, development and production risks; assessments of acquisitions; reserve measurements; availability of drilling equipment; access restrictions; permits and licenses; aboriginal claims; title defects; commodity prices; commodity markets, transportation and marketing of crude oil, liquids and natural gas; reliance on operators and key personnel; competition; corporate matters; funding requirements; access to credit and capital markets; market volatility; cost inflation; foreign exchanges rates; general economic and industry conditions; environmental risks; and government regulation and taxation.

Forward-looking statements relate to future events and/or performance and although considered reasonable by Prairie Storm at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. Prairie Storm does not undertake any obligation to publicly update forward-looking information except as required by applicable securities law.

RESPONDING TO THE NOVEL CORONAVIRUS

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including a reduction in worldwide demand for crude oil.

The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact. The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used in the preparation of financial results.

The Company's operations and business are particularly sensitive to a reduction in the demand for and prices of commodities, including crude oil and natural gas which are closely linked to the Company's financial performance. The potential direct and indirect impacts of the economic downturn have been considered in the estimates and assumptions as at June 30, 2021 and have been reflected in the Company's results with any significant changes described in the relevant financial statement note.

The COVID-19 pandemic is an evolving situation that will continue to have widespread implications for the Company's business environment, operations and financial condition. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Company's financial statements.

RESULTS OF OPERATIONS

Production volumes for 2021 were lower than 2020 due to normal production declines which were not offset by new production, as uncertain pricing forecasts were not conducive to further capital activity. Despite this, production revenue and netbacks increased, as higher pricing more than offset the impact of the reduced volumes.

Production

Prairie Storm's average daily production for the quarter ended June 30, 2021 was 1,964 boe/d, which was 8% lower than the 2,143 boe/d recorded in the quarter ended June 30, 2020. For the six months ended June 30, 2021, the daily average production was 1,944 boe/d, a 13% decrease from the 2,223 boe/d recorded in the first six months of 2020. The lower production is the result of normal production declines and limited capital investment due to the lower pricing environment in 2020 and the early part of 2021.

	Three months ended		**Six months ended**	
Average production	**Jun 30, 2021**	Jun 30, 2020	**Jun 30, 2021**	Jun 30, 2020
Oil (bbls/d)	**539**	600	**540**	652
Liquids (bbls/d)	**487**	537	**483**	556
Natural gas (mcf/d)	**5,625**	6,034	**5,524**	6,089
Oil equivalent (boe/d)	**1,964**	2,143	**1,944**	2,223

Revenue and pricing

Production revenue for the three and six months ended June 30, 2021, was $6.5 million and $12.5 million respectively, versus $3.1 million and $7.9 million for the three and six months ended June 30, 2020, respectively. The increase in these amounts reflects the higher commodity prices in 2021, which more than offset the impact of the decrease in volumes. Processing income, which consists primarily of processing and gathering fees charged to third parties utilizing the Company's gas infrastructure, fell as a result of reduced throughput volumes.

	Three months ended		**Six months ended**	
Production and processing revenue	**Jun 30, 2021**	Jun 30, 2020	**Jun 30, 2021**	Jun 30, 2020
Oil	**$ 3,671**	$ 1,430	**$ 6,798**	$ 4,492
Liquids	**1,243**	568	**2,525**	1,237
Natural gas	**1,619**	1,065	**3,166**	2,184
Production revenue	**6,533**	3,063	**12,489**	7,913
Processing income	**119**	303	**231**	444
Total revenue	**$ 6,652**	$ 3,366	**$ 12,720**	$ 8,357

	Three months ended		**Six months ended**	
Average realized pricing	**Jun 30, 2021**	Jun 30, 2020	**Jun 30, 2021**	Jun 30, 2020
Oil ($/bbl)	**$ 74.88**	$ 26.20	**$ 69.50**	$ 37.88
Liquids ($/bbl)	**28.07**	11.63	**28.85**	12.23
Natural gas ($/mcf)	**3.16**	1.94	**3.17**	1.97
Blended ($/boe)	**$ 36.57**	$ 15.71	**$ 35.48**	$ 19.57

Average benchmark prices	Three months ended Jun 30, 2021	Three months ended Jun 30, 2020	Six months ended Jun 30, 2021	Six months ended Jun 30, 2020
WTI oil (US$/bbl) (1)	**$ 66.05**	$ 27.85	**$ 61.94**	$ 37.01
MSW oil (Cdn$/bbl) (2)	**77.04**	29.55	**71.74**	40.58
AECO natural gas ($/mcf) (3)	**3.09**	1.99	**3.12**	2.01

(1) WTI represents the posting price of West Texas Intermediate oil
(2) MSW represents the Mixed Sweet Blend at Edmonton
(3) AECO natural gas represents the AECO 5A daily index

Commodity price management

While 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, Prairie Storm attempts to mitigate commodity price risk by fixing the price on 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 following tables outline the Company's gains and losses on its commodity contracts during the periods outlined below:

Gains (losses) on commodity contracts	Three months ended Jun 30, 2021	Three months ended Jun 30, 2020	Six months ended Jun 30, 2021	Six months ended Jun 30, 2020
Realized gain (loss) on commodity contracts	**$ (167)**	$ 1,445	**$ (318)**	$ 1,968
Unrealized gain (loss) on commodity contracts	**(307)**	(2,501)	**(413)**	1,224
Total	**$ (474)**	$ (1,056)	**$ (731)**	$ 3,192

Per boe	Three months ended Jun 30, 2021	Three months ended Jun 30, 2020	Six months ended Jun 30, 2021	Six months ended Jun 30, 2020
Realized gain (loss) on commodity contracts	**$ (0.93)**	$ 7.41	**$ (0.90)**	$ 4.87
Unrealized gain (loss) on commodity contracts	**(1.72)**	(12.83)	**(1.17)**	3.03
Gain (loss) on commodity contracts per boe	**$ (2.65)**	$ (5.42)	**$ (2.07)**	$ 7.90

As at June 30, 2021, the following commodity contracts were outstanding:

Commodity	Contract type	Term	Notional volume	Price	Reference
Gas	Fixed price	Jul 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

Royalties

Royalties, which include crown, freehold and overriding royalties paid on oil, liquids and natural gas production, amounted to $801 thousand during the second quarter of 2021 compared to $507 thousand during the second quarter of 2020. For the six months ended June 30, 2021, total royalties were $1.4 million compared to $926 thousand a year ago. In general, royalties were higher in 2021 due to higher production revenue. The higher percentage of royalties in the second quarter of 2020 was a result of prior year gas cost allowance adjustments recorded during the period.

Royalties	Three months ended Jun 30, 2021		Three months ended Jun 30, 2020		Six months ended Jun 30, 2021		Six months ended Jun 30, 2020	
Total royalties	**$**	**801**	$	507	**$**	**1,414**	$	926
Per boe		**4.48**		2.60		**4.02**		2.29
% of production revenue		**12.3%**		16.6%		**11.3%**		11.7%

Field operations

Field operations for the quarter ended June 30, 2021 amounted to $2.1 million, or $11.92/boe, compared to $1.8 million, or $9.04/boe, during the quarter ended June 30, 2020. For the six months ended June 30, 2021, field operations were $4.3 million ($12.27/boe) compared to $4.0 million ($9.90/boe) for the same period in 2020. Field operating costs showed an increase in 2021, but that was primarily due to the comparison against 2020's shut-down of non-essential activity during the early stages of the COVID-19 pandemic.

Field operations	Three months ended Jun 30, 2021		Three months ended Jun 30, 2020		Six months ended Jun 30, 2021		Six months ended Jun 30, 2020	
General operations	**$**	**2,136**	$	1,764	**$**	**4,244**	$	3,883
Workovers and turnarounds		**(6)**		-		**74**		122
Total field operations	**$**	**2,130**	$	1,764	**$**	**4,318**	$	4,005

Per boe	Three months ended Jun 30, 2021		Three months ended Jun 30, 2020		Six months ended Jun 30, 2021		Six months ended Jun 30, 2020	
General operations	**$**	**11.95**	$	9.04	**$**	**12.06**	$	9.60
Workovers and turnarounds		**(0.03)**		-		**0.21**		0.30
Total field operations per boe	**$**	**11.92**	$	9.04	**$**	**12.27**	$	9.90

Transportation and marketing costs

Total transportation and marketing costs for the three months ended June 30, 2021 amounted to $10 thousand or $0.06/boe, compared to $16 thousand or $0.08/boe, during the quarter ended June 30, 2020. For the six months ended June 30, 2021, transportation and marketing costs were $20 thousand ($0.06/boe) compared to $32 thousand ($0.08/boe) for the same period in 2020.

Transportation and marketing	Three months ended Jun 30, 2021		Three months ended Jun 30, 2020		Six months ended Jun 30, 2021		Six months ended Jun 30, 2020	
Transportation and marketing	**$**	**10**	$	16	**$**	**20**	$	32
Per boe		**0.06**		0.08		**0.06**		0.08

Field and operating netbacks

The following table summarizes the Company's field and operating netbacks. A field netback is a non-IFRS measure and is used by Prairie Storm to measure the profitability of crude oil and natural gas sales and processing income, subsequent to the deduction of royalty, operating and transportation and marketing costs. Operating netbacks are field netbacks, plus or minus realized gains or losses on commodity contracts. These measures are not necessarily comparable to field and operating netbacks as reported by other entities.

The $19.84/boe operating netback in the second quarter of 2021 was higher than the $12.95/boe in the comparative quarter with higher commodity prices more than offsetting the higher royalties, operating costs and impact of the Company's risk management program. The $18.89/boe operating netback in the first half year of 2021 was higher than the $13.27/boe recorded in 2020, with the same explanation for the increase as the second quarter results.

	Three months ended		Six months ended	
Netbacks per boe	**Jun 30, 2021**	Jun 30, 2020	**Jun 30, 2021**	Jun 30, 2020
Production revenue	**$ 36.57**	$ 15.71	**$ 35.48**	$ 19.57
Processing income	**0.66**	1.55	**0.66**	1.10
Royalties	**(4.48)**	(2.60)	**(4.02)**	(2.29)
Field operations	**(11.92)**	(9.04)	**(12.27)**	(9.90)
Transportation and marketing	**(0.06)**	(0.08)	**(0.06)**	(0.08)
Field netbacks	**20.77**	5.54	**19.79**	8.40
Realized gain (loss) on commodity contracts	**(0.93)**	7.41	**(0.90)**	4.87
Operating netbacks	**$ 19.84**	$ 12.95	**$ 18.89**	$ 13.27

General and administrative expenses

Net general and administrative expenses during the second quarter of 2021 amounted to $985 thousand, versus $730 thousand a year ago. For the six months ended June 30, 2021, $1.7 million of general and administrative expenses were incurred, compared to the $1.5 million a year ago. Net expenditures were higher in the second quarter of 2021 due to higher compensation costs and the easing of cost control measures undertaken at the start of the COVID-19 pandemic.

	Three months ended		Six months ended	
General & administrative expenditures	**Jun 30, 2021**	Jun 30, 2020	**Jun 30, 2021**	Jun 30, 2020
Gross expenditures	**$ 1,111**	$ 921	**$ 2,030**	$ 1,831
Recoveries	**(126)**	(191)	**(295)**	(318)
Net expenditures	**$ 985**	$ 730	**$ 1,735**	$ 1,513
Per boe	**$ 5.52**	$ 3.74	**$ 4.93**	$ 3.74

Finance costs

Finance costs are comprised of four different components. Interest and borrowing costs include interest, commitment fees, standby charges, and other expenses related to the Company's credit facilities and borrowings. Interest income is earned on the Company's excess cash balance. Accretion relates to the provision of the Company's decommissioning liabilities, and interest on lease obligations is the recognition of interest charges over the term of the underlying lease obligation.

	Three months ended		Six months ended	
Finance costs	**Jun 30, 2021**	Jun 30, 2020	**Jun 30, 2021**	Jun 30, 2020
Interest and borrowing costs	**$ 49**	$ 19	**$ 69**	$ 37
Interest income	**(11)**	(10)	**(18)**	(31)
Accretion	**149**	80	**306**	181
Interest on lease obligations	**11**	7	**23**	18
Total finance costs	**$ 198**	$ 96	**$ 380**	$ 205
Per boe	**$ 1.11**	$ 0.49	**$ 1.08**	$ 0.51

Stock-based compensation

On December 16, 2020, concurrent with the RTO, the Company issued 11,675,000 options with an exercise price of $0.20. In relation to these options, stock-based compensation of $284 thousand was recognized in the second quarter of 2021 and $568 thousand in the first six months of 2021.

Prior to the RTO and during the second quarter of 2020, all outstanding stock options of Prairie Energy were cancelled. No stock-based compensation expense was recognized prior to that point as it was not probable that a Fundamental Change (as defined in the Company's Stock Option Plan) was likely to occur. As a result of the cancellation and in accordance with IFRS 2 – *Share-based Payment*, $15.4 million was recognized as stock-based compensation expense in June 2020.

Depletion and depreciation

Total depletion and depreciation expense for the three and six months ended June 30, 2021 amounted to $2.2 million ($12.05/boe) and $4.2 million ($12.00/boe), respectively. This compares to $2.3 million ($11.84/boe) and $4.8 million ($11.94/boe) for the three and six months ended June 30, 2020. Generally speaking, the lower charges are the result of the lower production.

	Three months ended		Six months ended	
Depletion and depreciation	**Jun 30, 2021**	Jun 30, 2020	**Jun 30, 2021**	Jun 30, 2020
Depletion – petroleum and natural gas assets	**$ 2,067**	$ 2,217	**$ 4,057**	$ 4,684
Depreciation – office equipment	**4**	1	**8**	3
Depreciation – right-of-use assets	**82**	91	**159**	141
Total depletion and depreciation costs	**$ 2,153**	$ 2,309	**$ 4,224**	$ 4,828
Per boe	**$ 12.05**	$ 11.84	**$ 12.00**	$ 11.94

Income taxes

For the three and six months ended June 30, 2021, the Company recorded deferred income tax expenses of $131 thousand and $198 thousand, respectively. This compares to recoveries of $716 thousand and $55 thousand for the three and six months ended June 30, 2020. Although the Company recorded net losses for the three and six months ended June 30, 2021, deferred income tax expenses were recorded due to unrecognized tax assets in one of the consolidating entities.

The Company has not incurred any cash taxes for the periods mentioned above as there are sufficient tax pools to shelter the taxable income.

Cash flow from operating activities, adjusted funds flow and net loss

Both cash flow from operating activities and adjusted funds flow increased in 2021 as a result of the higher production revenue.

The net loss in 2020 was impacted by the $15.4 million charge to stock-based compensation as a result of the cancellation of the Company's outstanding stock options in June of that year.

	Three months ended		Six months ended	
	Jun 30, 2021	Jun 30, 2020	**Jun 30, 2021**	Jun 30, 2020
Cash flow from operating activities	**$ 2,403**	$ 2,229	**$ 4,537**	$ **4,533**
per share – basic and diluted	**0.02**	0.03	**0.03**	**0.06**
Adjusted funds flow (1)	**2,521**	1,785	**4,864**	**3,843**
per share – basic and diluted	**0.02**	0.02	**0.03**	**0.05**
Net loss	**(389)**	(18,152)	**(743)**	**(15,661)**
per share – basic and diluted	**-**	(0.24)	**(0.01)**	**(0.21)**
Shares outstanding				
weighted average – basic and diluted	**147,410**	76,332	**147,410**	76,332
period end	**147,410**	76,332	**147,410**	76,332

(1) Adjusted funds flow has been presented for information purposes only and should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS. The Company considers adjusted funds flow to be a key measure as it demonstrates the Company's ability to generate the cash necessary to repay debt and to fund future growth through capital investment. The determination of Prairie Storm's adjusted funds flow may not be comparable to the same reported by other companies.

Capital expenditures

The Company's gross capital expenditures were $347 thousand and 572 thousand for the three and six months ended June 30, 2021, respectively. This compares to $127 thousand and $137 thousand during the three and six months ended June 30, 2020. Expenditures were significantly reduced in 2020 due to the low-price environment and the on-going COVID-19 pandemic.

	Three months ended		Six months ended	
Capital expenditures	**Jun 30, 2021**	Jun 30, 2020	**Jun 30, 2021**	Jun 30, 2020
Land acquisition	**$ -**	$ -	**$ -**	$ 29
Drilling and completions	**275**	45	**457**	24
Equipping and facilities	**72**	77	**108**	79
Furniture and fixtures	**-**	5	**7**	5
Gross expenditures	**347**	127	**572**	137
Dispositions	**-**	-	**-**	-
Net expenditures	**$ 347**	$ 127	**$ 572**	$ 137

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

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. Prairie Storm 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 draw on its existing credit facility.

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, 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 June 30, 2021, the ratio of net debt to adjusted funds flow was n/a (December 31, 2020 – n/a), calculated as follows:

Net debt	June 30, 2021	December 31, 2020
Working capital	$ 8,124	$ 4,517
Fair value of commodity contracts	570	129
Lease obligations	344	334
Adjusted working capital (net debt)	$ 9,038	$ 4,980

Adjusted funds flow	Three months ended June 30, 2021	Three months ended December 31, 2020
Cash flow from operating activities	$ 2,403	$ 859
Changes in non-cash working capital	58	(17)
Funds flow	2,461	842
Transaction costs	-	485
Decommissioning expenditures	60	55
Adjusted funds flow	$ 2,521	$ 1,382
Annualized adjusted funds flow	$ 10,084	$ 5,528
Net debt to annualized adjusted funds flow (1)	n/a	n/a

(1) This ratio is not applicable as the Company has no debt and is in a positive working capital position.

Bank debt

As at June 30, 2021, the Company had drawn $nil against its $10 million credit facility. The credit facility consists of a $10 million extendible revolving credit facility and revolves until May 31, 2022. 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 June 30, 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 six months ended June 30, 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.

Share Capital

There were no common shares or options issued during the six months ended June 30, 2021.

As at June 30, 2021, and the date of this MD&A, the Company had 147,410,037 common shares outstanding and 11,675,000 options that, once vested, may be exercised and converted into 11,675,000 common shares.

COMMITMENTS

As at June 30, 2021, the Company had commitments as follows:

Commitments	2021	2022	2023	Thereafter	Total
Transportation	$ 139	$ 193	$ 29	$ 7	$ 368

OFF-BALANCE SHEET ARRANGEMENTS

The Company was not involved in any off-balance sheet arrangements during the three and six months ended June 30, 2021.

SUMMARY OF SELECTED QUARTERLY RESULTS

	Three months ended			
Description	**Jun 30, 2021**	**Mar 31, 2021**	**Dec 31, 2020**	**Sep 30, 2020**
Operational results				
Average daily production (boe/d)	1,964	1,926	2,015	2,090
Average selling price ($/boe)	36.57	34.36	26.59	24.33
Field netback ($/boe) (1)	20.77	18.79	10.52	11.67
Financial Results				
Gross production revenue	6,533	5,956	4,929	4,678
Adjusted funds flow	2,521	2,343	1,382	1,102
per share – basic and diluted	0.02	0.02	0.02	0.01
Net income (loss)	(389)	(354)	(1,637)	(1,761)
per share - basic and diluted	-	-	(0.02)	(0.02)
Capital expenditures	347	225	77	24
Weighted average shares – basic and diluted	147,410	147,410	88,693	76,332

	Three months ended			
Description	**Jun 30, 2020**	**Mar 31, 2020**	**Dec 31, 2019**	**Sep 30, 2019**
Operational results				
Average daily production (boe/d)	2,143	2,302	2,387	2,420
Average selling price ($/boe)	15.71	23.15	31.81	28.53
Field netback ($/boe) (1)	5.54	11.04	17.12	13.42
Financial Results				
Gross production revenue	3,063	4,850	6,986	6,351
Adjusted funds flow	1,785	2,058	2,825	2,538
per share – basic and diluted	0.02	0.03	0.04	0.03
Net income (loss)	(18,152)	2,491	(824)	197
per share - basic and diluted	(0.24)	0.03	(0.01)	-
Capital expenditures	127	10	562	3,456
Weighted average shares – basic and diluted	76,332	76,332	76,332	76,332

(1) Non-IFRS measure

Production volumes followed normal decline curves, although there was a slight increase in the latest quarter as the Company completed some minor repairs and workovers that were deferred in 2020 as a result of the COVID-19 pandemic.

Gross production revenue is a result of those volumes, combined with the volatility in commodity pricing. Adjusted funds flow then typically follows the swings in gross production revenue. An exception was during the second quarter of 2020 when pricing fell dramatically but the Company was able to realize a $1.4 million gain on commodity contracts as a result of its risk management program.

Swings in net income (loss) leading up to the second quarter of 2020 were attributable to swings in the unrealized gains and losses on commodity contracts due to the volatility of forward commodity prices. The net loss in second quarter of 2020 included both a $2.5 million unrealized loss on commodity contracts, and a $15.4 million charge for stock-based compensation in accordance with IFRS 2 – *Share-based Payment*, as a result of all Company stock options being cancelled.

With the drop off in commodity prices and the COVID-19 pandemic, capital activity dropped off considerably in 2020 and was restricted to essential programs only. Activity picked up a bit in 2021 as some operations were restarted once the Company became more comfortable with the safety protocols in place.

RISK ASSESSMENT

The acquisition, exploration, development and production of petroleum and natural gas reserves involves many risks common to all participants in the industry. These include risks for reserves, operations, credit, liquidity, market, and regulations. While the Company realizes these risks cannot be eliminated, it is committed to monitoring and mitigating these risks where practical.

Reserves risk

The assessment of reserves requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. These factors may cause actual results to vary from estimates.

Prairie Storm's reserves, and cash flows derived therefrom, are highly dependent on the Company acquiring, discovering, and producing those reserves in a successful manner. Without the addition of new reserves, production will decline over time as the existing reserves are depleted. Increases in the Company's reserves will depend on its abilities to acquire suitable assets and/or successfully develop its existing properties. To mitigate this reserve risk, the Company has assembled a team of technical professionals who have expertise with the exploration and development of reserves within the Company's core area.

Operations risk

The Company's operational activities are focused in the Willesden Green area of West Central Alberta, a competitive environment with a number of companies exploring for hydrocarbons. Other operational risks include weather delays, mechanical or technical difficulties, and access to processing and takeaway infrastructure. In addition to hiring experienced staff and personnel to oversee its field operations, Prairie Storm attempts to manage these risks by conducting advance planning to manage its operational programs; maintaining an inventory of certain critical equipment; and developing its assets in a such a way that existing infrastructure can be utilized, or new infrastructure developed in a timely and cost efficient manner.

Field operations are also subject to health, safety and environmental risks. The Company maintains a Health, Safety and Environmental Policy and an Emergency Response Plan which are updated bi-annually or as needed to comply with current legislation. Both are designed to protect the health and safety of all concerned persons in addition to respecting any environmental regulations. The Company also maintains insurance covering property, drilling, pollution, and commercial general liability to reduce exposure to any potential insurable event.

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, as are the commodity contracts.

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. 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.

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 applicable.

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. The Company also utilizes authorizations for expenditures to further manage capital expenditures.

The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its available cash and existing credit facility.

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'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 Company attempts to mitigate commodity price risk by fixing the price on a portion of its petroleum and natural gas production through various financial commodity contracts.

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. The Company had no forward interest rate contracts in place as at or during the three and six months ended June 30, 2021.

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 and six months ended June 30, 2021.

Regulatory

As a member of the oil and gas industry, Prairie Storm is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production). As well, governments may regulate or intervene with respect to price, taxes, royalties, and the ability to export hydrocarbons. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand, increase costs and may have a material adverse impact on the Company.

Prairie Storm currently operates in a manner that is in compliance with applicable regulations and industry standards and must react to comply with changes as they occur.