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 three months ended March 31, 2021 and the audited consolidated financial statements as at and for the years ended December 31, 2020 and 2019. 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 the on the Company's website at www.prairiestormresources.com.

This MD&A is current as at May 27, 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 exploration, development and production of petroleum and natural gas reserves in western Canada. The unaudited interim condensed 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 adjusted funds flow, field netbacks, operating netbacks and net debt. 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.

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. Prairie Storm determines adjusted funds flow as cash provided by operating activities prior to changes in non-cash working capital items, transaction costs and decommissioning expenditures. A reconciliation of cash provided by operating activities to adjusted funds flow is presented below:

	Three months ended	
	Mar 31, 2021	Mar 31, 2020
Net cash flows from operating activities	$ **2,134**	$ 2,304
Change in non-cash working capital items	**209**	(350)
Funds flow	**2,343**	1,954
Decommissioning expenditures	**-**	104
Adjusted funds flow	$ **2,343**	$ 2,058

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.

The Company monitors net debt as part of its capital structure. Net debt is calculated as long-term debt plus/minus adjusted working capital (defined as current assets less current liabilities, exclusive of lease obligations and the fair value of commodity contracts). The calculation of net debt is presented below:

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

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 March 31, 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 March 31, 2021 was 1,926 boe/d, which was 16% lower than the 2,302 boe/d recorded during the quarter ended March 31, 2020. The lower production is the result of normal production declines and limited capital investment in the 2020 pricing environment.

	Three months ended	
Average production	**Mar 31, 2021**	Mar 31, 2020
Oil (bbls/d)	**542**	703
Liquids (bbls/d)	**480**	575
Natural gas (mcf/d)	**5,422**	6,144
Oil equivalent (boe/d)	**1,926**	2,302

Revenue and pricing

Total revenue for the three months ended March 31, 2021 was $6.1 million versus $5.0 million for the three months ended March 31, 2020. The increase in these amounts reflects higher pricing partially offset by lower volumes in 2021. 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	
Production and processing revenue	**Mar 31, 2021**	Mar 31, 2020
Oil	**$ 3,127**	$ 3,063
Liquids	**1,282**	668
Natural gas	**1,547**	1,119
Production revenue	**5,956**	4,850
Processing income	**112**	141
Total revenue	**$ 6,068**	$ 4,991

	Three months ended	
Average realized pricing	**Mar 31, 2021**	Mar 31, 2020
Oil ($/bbl)	**$ 64.09**	$ 47.86
Liquids ($/bbl)	**29.66**	12.78
Natural gas ($/mcf)	**3.17**	2.00
Blended ($/boe)	**$ 34.36**	$ 23.15

	Three months ended	
Average benchmark prices	**Mar 31, 2021**	Mar 31, 2020
WTI oil (US$/bbl) (1)	**$ 57.84**	$ 46.17
MSW oil (Cdn$/bbl) (2)	**66.45**	51.62
AECO natural gas ($/mcf) (3)	**3.15**	2.03

(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:

	Three months ended	
Gains (losses) on commodity contracts	**Mar 31, 2021**	Mar 31, 2020
Realized gain (loss) on commodity contracts	**$ (151)**	$ 523
Unrealized gain (loss) on commodity contracts	**(106)**	3,725
Total	**$ (257)**	$ 4,248

	Three months ended	
Per boe	**Mar 31, 2021**	Mar 31, 2020
Realized gain (loss) on commodity contracts	**$ (0.87)**	$ 2.50
Unrealized gain (loss) on commodity contracts	**(0.61)**	17.78
Gain (loss) on commodity contracts per boe	**$ (1.48)**	$ 20.28

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

Royalties

Royalties, which include crown, freehold and overriding royalties paid on oil, liquids and natural gas production, amounted to $613 thousand during the first quarter of 2021 compared to $419 thousand during the first quarter of 2020. The increase in royalties was largely attributable to increased pricing and revenue, coupled with a reduction in the Company's gas cost allowance claims.

	Three months ended	
Royalties	**Mar 31, 2021**	Mar 31, 2020
Total royalties	**$ 613**	$ 419
Per boe	**3.54**	2.00
% of production revenue	**10.3%**	8.6%

Field Operations

Field operations for the quarter ended March 31, 2021 amounted to $2.2 million, or $12.62/boe, compared to $2.2 million, or $10.70/boe, during the quarter ended March 31, 2020. In absolute dollar terms, field operating costs were relatively consistent over the comparative periods but increased on a boe basis in 2021 as a result of the lower volumes.

	Three months ended	
Field operations	**Mar 31, 2021**	Mar 31, 2020
General operations	**$ 2,108**	$ 2,118
Workovers and turnarounds	**80**	123
Total field operations	**$ 2,188**	$ 2,241

	Three months ended	
Per boe	**Mar 31, 2021**	Mar 31, 2020
General operations	**$ 12.16**	$ 10.11
Workovers and turnarounds	**0.46**	0.59
Total field operations per boe	**$ 12.62**	$ 10.70

Transportation and marketing costs

Total transportation and marketing costs for the three months ended March 31, 2021 amounted to $10 thousand or $0.06/boe, compared to $16 thousand or $0.08/boe, during the quarter ended March 31, 2020.

	Three months ended	
Transportation and marketing	**Mar 31, 2021**	Mar 31, 2020
Transportation and marketing	**$ 10**	$ 16
Per boe	**$ 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 $17.92/boe operating netback in the first quarter of 2021 was higher than the $13.54/boe in the comparative quarter with higher commodity prices more than offsetting the higher operating costs and royalties and the impact of the Company's risk management program.

	Three months ended	
Netbacks per boe	**Mar 31, 2021**	Mar 31, 2020
Production revenue	**$ 34.36**	$ 23.15
Processing income	**0.65**	0.67
Royalties	**(3.54)**	(2.00)
Field operations	**(12.62)**	(10.70)
Transportation and marketing	**(0.06)**	(0.08)
Field netbacks	**18.79**	11.04
Realized gain (loss) on commodity contracts	**(0.87)**	2.50
Operating netbacks	**$ 17.92**	$ 13.54

General and administrative expenses

Net general and administrative expenses during the first quarter of 2021 amounted to $750 thousand, versus $783 thousand a year ago. Net expenditures relatively consistent over the comparative periods but increased on a boe basis in 2021 as a result of the decrease in production volumes.

	Three months ended	
General & administrative expenditures	**Mar 31, 2021**	Mar 31, 2020
Gross expenditures	**$ 919**	$ 910
Recoveries	**(169)**	(127)
Net expenditures	**$ 750**	$ 783
Per boe	**$ 4.33**	$ 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	
Finance costs	**Mar 31, 2021**	Mar 31, 2020
Interest and borrowing costs	**$ 20**	$ 18
Interest income	**(7)**	(21)
Accretion	**157**	101
Interest on lease obligations	**12**	11
Total finance costs	**$ 182**	$ 109
Per boe	**$ 1.05**	$ 0.52

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. Stock-based compensation of $284 thousand was recognized in the first quarter of 2021 in relation to these options.

There was no stock-based compensation expense in the first quarter of 2020.

Depletion and depreciation

Total depletion and depreciation expense for the three months March 31, 2021 amounted to $2.1 million ($11.95/boe). This compares to $2.5 million ($12.03/boe) for the three months March 31, 2020. Generally speaking, the lower charge was the result of the lower depletion.

	Three months ended	
Depletion and depreciation	**Mar 31, 2021**	Mar 31, 2020
Depletion – petroleum and natural gas assets	**$ 1,990**	$ 2,467
Depreciation – office equipment	**4**	1
Depreciation – right-of-use assets	**77**	51
Total depletion and depreciation costs	**$ 2,071**	$ 2,519
Per boe	**$ 11.95**	$ 12.03

Income taxes

For the three months ended March 31, 2021, the Company recorded deferred income tax expense of $67 thousand. This compares to deferred tax expense of $661 thousand for the three months ended March 31, 2020. The reduced profitability was the reason for the lower charge.

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

Cash flow from operating activities decreased by $170 thousand in 2021, but adjusting for changes in non-cash working capital and decommission expenditures resulted in adjusted funds flow increasing by $285 thousand.

The first three months of 2021 saw a net loss of $354 thousand, versus net income of $2.5 million in the comparative period. While total revenue increased to $6.1 million from $5.0 million a year ago, the 2021 net loss figure included hedging losses of $257 thousand while the 2020 net income figure included hedging gains of $4.2 million.

	Three months ended	
	Mar 31, 2021	Mar 31, 2020
Cash flow from operating activities	**$ 2,134**	$ **2,304**
per share – basic and diluted	**0.01**	**0.03**
Adjusted funds flow (1)	**2,343**	**2,058**
per share – basic and diluted	**0.02**	**0.03**
Net income (loss)	**(354)**	**2,491**
per share – basic and diluted	**-**	**0.03**
Shares outstanding		
weighted average – basic and diluted	**147,410**	76,332
period end	**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. The reconciliation of adjusted funds flow from cash flow from operating activities can be found in the "Non-IFRS financial measurements" section at the front of this MD&A.

Capital expenditures

The Company's gross capital expenditures were $225 thousand the three months ended March 31, 2021. This compares to $10 thousand for the three months ended March 31, 2020. Expenditures were minor in 2020 due to the low-price environment and the start of the COVID-19 pandemic.

	Three months ended	
Capital expenditures	**Mar 31, 2021**	Mar 31, 2020
Land acquisition	**$ -**	$ 29
Drilling and completions	**182**	(21)
Equipping and facilities	**36**	2
Furniture and fixtures	**7**	-
Gross expenditures	**225**	10
Dispositions	**-**	-
Net expenditures	**$ 225**	$ 10

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 issue new debt.

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.

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 operating activities	$	2,134	$	859
Changes in non-cash working capital		209		(17)
Funds flow		2,343		842
Transaction costs		-		485
Decommissioning expenditures		-		55
Adjusted funds flow	$	2,343	$	1,382
Annualized adjusted funds flow	$	9,372	$	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 positive working capital.

Bank debt

As at March 31, 2021, the Company had drawn $nil against its credit facility. The credit facility consists of a $10 million extendible revolving credit facility and revolves 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. The Company is currently in the process of extending the credit facility for another year.

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 three months 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.

Share capital and option activity

There were no common shares or options issued during the three months ended March 31, 2021.

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

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company was not involved in any off-balance sheet arrangements during the three months ended March 31, 2021.

SUMMARY OF SELECTED QUARTERLY RESULTS

The following is a summary of selected operational and financial results from the previous eight quarters:

	Three months ended			
Description	**Mar 31, 2021**	**Dec 31, 2020**	**Sep 30, 2020**	**Jun 30, 2020**
Operational results				
Average daily production (boe/d)	1,926	2,015	2,090	2,143
Average selling price ($/boe)	34.36	26.59	24.33	15.71
Field netback ($/boe) (1)	18.79	10.52	11.67	5.54
Financial Results				
Gross production revenue	5,956	4,929	4,678	3,063
Adjusted funds flow (1)	2,343	1,382	1,102	1,785
per share – basic and diluted (1)	0.02	0.02	0.01	0.02
Net income (loss)	(354)	(1,637)	(1,761)	(18,152)
per share - basic and diluted	-	(0.02)	(0.02)	(0.24)
Capital expenditures	225	77	24	127
Weighted average shares – basic and diluted	147,410	88,693	76,332	76,332

	Three months ended			
Description	**Mar 31, 2020**	**Dec 31, 2019**	**Sep 30, 2019**	**Jun 30, 2019**
Operational results				
Average daily production (boe/d)	2,302	2,387	2,420	2,306
Average selling price ($/boe)	23.15	31.81	28.53	32.23
Field netback ($/boe) (1)	11.04	17.12	13.42	14.00
Financial Results				
Gross production revenue	4,850	6,986	6,351	6,764
Adjusted funds flow (1)	2,058	2,825	2,538	2,112
per share – basic and diluted (1)	0.03	0.04	0.03	0.03
Net income (loss)	2,491	(824)	197	66
per share - basic and diluted	0.03	(0.01)	-	-
Capital expenditures	10	562	3,456	993
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 an increase in third quarter 2019 volumes associated with the increased level of capital activity.

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.

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 months ended March 31, 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 months ended March 31, 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.