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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Prairie Storm Resources Corp.

Opinion

We have audited the consolidated financial statements of Prairie Storm Resources Corp. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of loss and other comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and December 31,2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditors' Responsibilities for the Audit of the Financial Statements"** section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as issued by the IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Timothy Arthur Richards.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

April 28, 2021

PRAIRIE STORM RESOURCES CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in thousands of Canadian Dollars)

	Notes	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		$ 4,853	$ 4,340
Accounts receivable		2,127	2,631
Prepaid expenses and deposits		390	513
		7,370	7,484
Property, plant and equipment	6	97,197	102,919
Total assets		$ 104,567	$ 110,403
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 2,390	$ 1,938
Fair value of commodity contracts	15	129	718
Lease obligations	8	334	200
		2,853	2,856
Fair value of commodity contracts	15	28	-
Lease obligations	8	689	660
Decommissioning liabilities	9	33,362	30,581
Deferred income taxes	12	782	1,465
		37,714	35,562
Shareholders' equity			
Share capital	10(a)	65,801	70,242
Contributed surplus	10(c)	15,512	-
Retained earnings (deficit)		(14,460)	4,599
		66,853	74,841
Total liabilities and shareholders' equity		$ 104,567	$ 110,403

Commitments (note 17)

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors

(signed) "Bruce Waterman" Director

(signed) "Hugh G. Ross" Director

PRAIRIE STORM RESOURCES CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in thousands of Canadian Dollars, except per share amounts)

	Notes	Year ended December 31, 2020	Year ended December 31, 2019
Revenue			
Production revenue	11	$ 17,520	$ 27,811
Processing income	11	665	757
Royalties		(1,639)	(2,465)
		16,546	26,103
Realized gain on commodity contracts	15	2,165	334
Unrealized gain (loss) on commodity contracts	15	561	(2,768)
		19,272	23,669
Expenses			
Field operations		8,902	11,900
Transportation and marketing		57	57
General and administrative		3,348	3,360
Transaction and listing costs	5, 10(a)	1,538	-
Stock-based compensation	10(c)	15,512	-
Depletion and depreciation	6	9,385	10,344
		38,742	25,661
Loss from operations		(19,470)	(1,992)
Finance costs	13	(484)	(686)
Other income		212	10
		(272)	(676)
Loss before income taxes		(19,742)	(2,668)
Deferred income taxes (recovery)	12	(683)	(888)
Net loss and comprehensive loss		$ (19,059)	$ (1,780)
Net loss per share			
Basic	10(d)	$ (0.24)	$ (0.02)
Diluted	10(d)	$ (0.24)	$ (0.02)

See accompanying notes to the consolidated financial statements.

PRAIRIE STORM RESOURCES CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in thousands of Canadian Dollars)

	Notes		Year ended December 31, 2020		Year ended December 31, 2019
Share capital					
Balance, beginning of year		$	70,242	$	76,242
Return of capital	10(a)		(5,000)		(6,000)
Reverse takeover transaction	5		514		-
Exercise of stock options	10(b)(c)		45		-
Balance, end of year		$	65,801	$	70,242
Contributed surplus					
Balance, beginning of year		$	-	$	-
Reverse takeover transaction	5		15		-
Exercise of stock options	10(c)		(15)		-
Stock-based compensation	10(c)		15,512		-
Balance, end of year		$	15,512	$	-
Retained earnings (deficit)					
Balance, beginning of year		$	4,599	$	6,379
Net loss for the year			(19,059)		(1,780)
Balance, end of year		$	(14,460)	$	4,599
Total shareholders' equity		$	66,853	$	74,841

See accompanying notes to the consolidated financial statements.

PRAIRIE STORM RESOURCES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of Canadian Dollars)

	Notes	Year ended December 31, 2020	Year ended December 31, 2019
Cash provided by (used) in:			
Operations			
Net loss for the year		$ (19,059)	$ (1,780)
Non-cash and other items			
Unrealized (gain) loss on commodity contracts	15	(561)	2,768
Transaction and listing costs	5	608	-
Stock-based compensation	10(c)	15,512	-
Depletion and depreciation		9,385	10,344
Finance costs	11	407	595
Other income		(212)	(10)
Deferred taxes	12	(683)	(888)
Decommissioning expenditures	9	(388)	(271)
Change in non-cash working capital	14	1,176	(767)
Net cash flows from operating activities		6,185	9,991
Financing			
Return of capital	10(a)	(5,000)	(6,000)
Proceeds from exercise of stock options	10(b)	30	-
Cash acquired on reverse takeover	5	10	-
Payments on lease obligations	8	(388)	(212)
Net cash flows used in financing activities		(5,348)	(6,212)
Investing			
Property, plant and equipment expenditures	6	(238)	(6,481)
Proceeds from dispositions		100	10
Change in non-cash working capital	14	(186)	(914)
Net cash flows used in investing activities		(324)	(7,385)
Change in cash and cash equivalents		513	(3,606)
Cash and cash equivalents, beginning of year		4,340	7,946
Cash and cash equivalents, end of year		$ 4,853	$ 4,340

See accompanying notes to the 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 Columbia, 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company's significant accounting policies are presented in note 3.

These consolidated financial statements were authorized for issuance by the Board of Directors on April 28, 2021.

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments which have been measured at fair value with the changes in fair value recorded in earnings. The methods used to measure fair values are discussed in note 4.

Expenses in the consolidated statement of loss are presented as a combination of function and nature in conformity with industry practice. Stock-based compensation and depletion and depreciation expense are presented on separate lines by their nature, while field operations, transportation and marketing, general and administrative costs, and transaction and listing costs are presented on a functional basis.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its wholly owned subsidiaries.

d) Critical accounting judgments and key sources of estimation uncertainty

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

Critical judgments in applying accounting policies:

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

i) Identification of cash-generating units ("CGUs")

The Company's assets are aggregated into CGUs, for the purpose of calculating impairment, based on their ability to generate largely independent cash inflows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

ii) Impairment of property, plant and equipment ("PP&E")

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

iii) Exploration and evaluation ("E&E") assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing commercial viability and technical feasibility.

iv) Deferred income taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

v) Leased assets

The Company is required to make judgements and assumptions on incremental borrowing rates and lease terms. The carrying amount of the leased assets, lease obligations, interest and depreciation expense may differ due to changes in market conditions and expected lease terms. Incremental borrowing rates are based on the Company's borrowing rate at the commencement date of the lease, the security of the asset and market conditions. Lease terms are based on management's assumptions of future market conditions and operational decisions.

Key sources of estimation uncertainty:

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

i) Reserves

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also 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. Changes in reported reserves can impact the carrying values of the Company's PP&E, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets or liabilities due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from the Company's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered

commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if producibility is supported by either production or conclusive formation tests. The Company's petroleum and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

ii) Decommissioning obligations

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires assumptions regarding abandonment dates, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating costs, future removal technologies in determining the removal costs and liability-specific discount rates to determine the present value of these cash flows.

iii) Business combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

iv) Share-based payments

All equity-settled, share-based awards issued by the Company are recorded at fair value. The fair value of stock option awards are estimated using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

v) Income taxes

The Company follows the asset/liability method for calculating deferred income taxes. Tax interpretations, regulations and legislation are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are recognized only to the extent that those assets are considered recoverable. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

vi) Commodity contracts

The Company's estimates of the fair value of commodity contracts are dependent on estimated forward prices and volatility in those prices.

vii) Covid-19

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 December 31, 2020 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 consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these consolidated financial statements.

a) Financial instruments

i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through the statements of income, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents is comprised of cash on hand, term deposits, and other short-term highly liquid investments with original maturities of three months or less.

Other non-derivative financial instruments, such as accounts receivable, accounts payable and accrued liabilities, and bank debt, where applicable, are measured at amortized cost using the effective interest method, less any impairment losses.

ii) Derivative financial instruments

The Company, from time to time, may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices and interest rates. These instruments are not used for trading or speculative purposes. The Company does not designate any financial derivative contracts as effective accounting hedges, and thus does not apply hedge accounting, even though the Company considers all contracts to be economic hedges. As a result, any financial derivative contracts are classified as fair value through profit or loss and are recorded on the Statement of Financial Position at fair value. Transaction costs are recognized in earnings when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related.

iii) Share capital

Common shares are classified as equity. Incremental costs directly attributed to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

b) PP&E and E&E assets:

i) *Recognition and measurement:*

Exploration and evaluation expenditures:

Pre-license costs incurred before the Company has obtained the legal rights to explore for petroleum and natural gas are expensed.
Exploration and evaluation costs, including the costs of acquiring leases and licenses initially are capitalized as E&E assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to the related CGU.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets referred to as PP&E.

Development and production costs:

Items of PP&E, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. When significant parts of an item of PP&E, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of PP&E, property swaps and farm-outs, are determined by comparing the proceeds or fair value of the asset received or given up with the carrying amount of PP&E and are recognized in profit or loss.

ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as operating costs as incurred.

iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

c) Impairment:

i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.
Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit loss and are discounted at the effective interest rate of the related financial asset.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to PP&E, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

The goodwill acquired in an acquisition, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to the related CGU when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of PP&E and E&E assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has

been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

d) Jointly owned assets

Substantially all of the Company's oil and gas exploration and development activities involve jointly owned assets and, accordingly, the financial statements reflect only the Company's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

e) Income tax

Income tax expense is comprised of current and deferred taxes. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any adjustments to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognized on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized on temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax rates enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

f) Provisions

i) General

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk free" rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense. Provisions are not recognized for future operating losses.

ii) Decommissioning obligations

The Company's activities give rise to abandonment and site restoration of petroleum and natural gas properties. A provision is made for the estimated cost of abandonment and site restoration and is capitalized in the relevant asset category. The capitalized amount is depleted on a unit of production basis over the life of the associated proved plus probable reserves.

Decommissioning obligations are measured at the present value using management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each reporting period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized in earnings as accretion (within other finance expenses), whereas increases and decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred

upon settlement of the decommissioning obligation are charged against the provision to the extent that the obligation was previously established.

g) Petroleum and natural gas revenue

Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. The Company recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods.

The Company evaluates its arrangements with 3rd parties and partners to determine if the Company acts as principal or as agent. In making this evaluation, management considers if the Company maintains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

h) Transportation expense

Transportation costs are normally paid for shipping petroleum and natural gas from the wellhead to the point of title transfer to buyers. These costs are recognized when services are received.

i) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received, and all attached conditions will be met. If a grant is received but compliance with any attached condition is not achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the grant relates to an expense item, it is recognized as a reduction of the related expense item in the period in which the costs are incurred. Where the grant relates to an asset, it is recognized as a reduction to the net book value of the related asset and then subsequently in the statements of income over the expected useful life of the related asset through lower charges to impairment and/or depletion and depreciation.

j) Leases

When the Company enters into a lease arrangement as lessee, it recognizes a right-of-use (“ROU”) asset and a corresponding lease obligation on the consolidated statement of financial position at the lease commencement date.

ROU assets are initially measured at cost, which includes the initial measurement of the lease obligation less any incentives received, plus any lease payments made at or before the lease commencement date, along with any initial direct costs incurred and an estimate of future restoration costs, if any. ROU assets are subsequently depreciated on a straight-line basis over the shorter of the asset’s useful life and the lease term. ROU assets are also reduced by impairment losses, if any, and adjusted for certain re-measurements of the underlying lease obligation.

Lease obligations are measured as the net present value of the lease payments. These may include fixed lease payments, variable lease payments based on an index or rate, amounts expected to be payable under residual value guarantees, and payments to exercise extension or termination options if the Company is reasonably certain to exercise either of those options. The net present value of the lease payments is discounted using the rate implicit in the lease unless this rate is not readily determinable, in which case the Company’s incremental borrowing rate is used. The interest associated with the lease obligation is recognized over the term of the lease with a corresponding increase to the underlying lease obligation.

Short-term leases and leases of low-value assets are not recognized on the consolidated statement of financial position and lease payments are instead recognized in the consolidated financial statements as incurred. The Company also applies a single discount rate to a portfolio of leases with similar characteristics.

k) Finance income and costs

Finance costs include interest expenses on borrowings, costs relating to the establishment and maintenance of the Company's credit facilities, the accretion of the discount on decommissioning obligations, and interest on lease obligations.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

l) Earnings (loss) per share

Earnings (loss) per share is calculated by dividing earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Financial instruments

i) Non-derivative financial instruments

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt, where applicable, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2020 and December 31, 2019, the fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximated their carrying value due to their short-term maturity. 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.

ii) Derivative financial instruments

The fair value of commodity price contracts is determined by the difference between the contracted prices and published forward commodity price curves at each reporting date, using the remaining contracted commodity volumes and a credit adjusted interest rate. The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value measurement of the commodity price contracts has a hierarchy of Level 2.

b) Petroleum and natural gas properties

The fair value of PP&E and E&E assets recognized in a business combination is based on market values. The market value of PP&E and E&E assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing, wherein the parties had each acted knowledgably, prudently and without compulsion. The market value of petroleum and natural gas properties included in PP&E and E&E assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of other items of property and equipment is based on the quoted market prices for similar items.

c) Stock Options

The fair value of share-based payments is measured using a Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility in share price (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividend yield, risk-free interest rate (based on government bonds) and estimated forfeiture rate at the initial grant date.

5. ACQUISITIONS AND DISPOSITIONS

On December 16, 2020, a wholly owned subsidiary of the Company amalgamated with Prairie Energy which resulted in a reverse takeover of the Company by the former shareholders of Prairie Energy (the "Amalgamation").

The Amalgamation was completed pursuant to an amalgamation agreement dated November 16, 2020 (the "Amalgamation Agreement") amongst Prairie Energy, the Company and 2291479 Alberta Ltd., a wholly owned subsidiary of Company ("SubCo"), whereby, among other things, SubCo amalgamated with Prairie Energy to form a newly amalgamated corporation also named Prairie Storm Energy Corp ("Amalco"). Pursuant to the Amalgamation:

(a) each Class A common share of Prairie Energy ("Prairie Energy Share") was cancelled without any repayment of capital in respect thereof and its holder received 1.883233 fully paid and non-assessable common shares of Quendale (the "Quendale Shares") at a deemed price of $0.28 per Prairie Energy share.

(b) the Class A common shares of SubCo were cancelled and replaced by one common share of Amalco ("Amalco Share") issued to Quendale; and

(c) in consideration for the issuance of the Quendale Shares to effect the Amalgamation, Amalco issued to Quendale one Amalco Share for each Quendale Share issued in exchange for the Prairie Energy Shares as described above,

resulting in Amalco being a wholly owned subsidiary of Quendale, with Quendale holding all the issued and outstanding Amalco Shares.

In connection with the Amalgamation and pursuant to the terms of the Amalgamation Agreement, Quendale changed its name to Prairie Storm Resources Corp. and issued 143,750,037 common shares to the shareholders of Prairie Energy. Immediately following the Amalgamation there were 147,210,037 common shares issued and outstanding, with the former Prairie Energy shareholders holding approximately 97.65% of the issued and outstanding common shares.

Prairie Storm Resources Corp. begin trading on the TSXV on December 21, 2020.

The Amalgamation was treated as an RTO for accounting purposes based on the terms within the Amalgamation Agreement. In accordance with IFRS, Quendale did not meet the definition of a business for accounting purposes. Therefore, the RTO does not constitute a business combination but a capital transaction of Quendale in substance with Prairie Energy being the

continuing entity from an accounting perspective. 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 comparative year's information is also that of Prairie Energy.

Shareholders of Quendale received 3,460,000 shares of Prairie Energy at a deemed price of $0.28 per share. Outstanding stock options of Quendale continued into the Company and were revalued based on their estimated value using the Black-Scholes option pricing model (note 10(c)), resulting in contributed surplus of $15 thousand being recognized with respect to the outstanding stock options.

The fair value of the net assets (liabilities) that were acquired pursuant to the RTO are as follows:

Net assets (liabilities) acquired		
Cash and cash equivalents	$	10
Accounts payable and accrued liabilities		(89)
Net assets (liabilities) acquired	$	(79)
Consideration		
Fair value of the common shares of Quendale	$	514
Fair value of the stock options of Quendale		15
Total consideration		529
Excess of purchase consideration over net liabilities acquired, being a listing expense	$	608

Acquisition costs of $570 thousand have been excluded from consideration paid and were recognized as transaction costs on the consolidated statement of loss for the year ended December 31, 2020.

6. 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, 2018	$ 127,483	$ 280	$ -	$ 127,763
Additions	6,479	2	1,027	7,508
Dispositions	-	-	(9)	(9)
Decommissioning liabilities	(479)	-	-	(479)
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
Accumulated depletion and depreciation				
Balance, December 31, 2018	$ (21,316)	$ (213)	$ -	$ (21,529)
Depletion and depreciation	(10,084)	(63)	(197)	(10,344)
Dispositions	-	-	9	9
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)
Net carrying value				
December 31, 2019	$ 102,083	$ 6	$ 830	$ 102,919
December 31, 2020	$ 96,140	$ 48	$ 1,009	$ 97,197

Future development costs of $215.0 million (2019 – $213.2 million) were included in the depletable costs as these costs are necessary to bring the proved and probable reserves into production.

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
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, approximated its carrying value and no impairment was required. Any increase in the discount rates would reduce the value in use and an impairment would be required.

For the year ended December 31, 2019, the Company determined there were indicators of impairment and therefore completed an impairment test. There was no impairment of the Company's assets as a result of this test.

7. BANK DEBT

As at December 31, 2020, the Company had drawn $nil on its existing credit facility. The 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 December 31, 2020, 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 year ended December 31, 2020, the effective interest rate for the bank debt was approximately 4.4% (2019 – 5.0%).

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.

8. 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.

	December 31, 2020	December 31, 2019
Lease obligations, beginning of year	$ 860	$ -
Adoption of IFRS 16	-	1,000
Additions	782	27
Revisions	(265)	-
Payments	(388)	(212)
Interest	34	45
Lease obligations, end of year	$ 1,023	$ 860

The allocation of lease obligations between current and long-term is as follows:

	December 31, 2020	December 31, 2019
Current portion	$ 334	$ 200
Long-term portion	689	660
Lease obligations	$ 1,023	$ 860

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

	December 31, 2020	December 31, 2019
Less than 1 year	$ 335	$ 201
1 – 3 years	597	441
After 3 years	204	361
Total undiscounted future lease payments	1,136	1,003
Total undiscounted future interest payments	(113)	(143)
Present value of lease obligations	$ 1,023	$ 860

Expenses relating to short-term leases and leases of low value assets for the year ended December 31, 2020 were $4 thousand (December 31, 2019 - $9 thousand).

9. 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.

	December 31, 2020	December 31, 2019
Decommissioning liabilities, beginning of year	$ 30,581	$ 30,781
Revisions	2,908	(576)
Additions	-	97
Liabilities settled	(388)	(271)
Government grant for decommissioning expenditures	(112)	-
Accretion	373	550
Decommissioning liabilities, end of year	$ 33,362	$ 30,581

The inflated, undiscounted amount of future cash flows required to settle the liabilities is estimated to be $38.1 million (2019 – $37.5 million). The liabilities were calculated using a risk-free interest rate of 1.21% (2019 – 1.76%) and an inflation rate of 1.49% (2019 – 1.35%). 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.

10. 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.

Common shares issued and outstanding	Number of shares	Amount
Balance, December 31, 2018	76,332	$ 76,242
Return of capital	-	(6,000)
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	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	-	$ -

b) Stock options

Prior to December 31, 2020, the Company had stock options outstanding under its Stock Option Plan (the "Prior Plan") for the benefit of certain directors, officers and employees. Pursuant to the terms of the Prior Plan, there were 218,965,384 Options available for granting (Tier I – 101,662,500, Tier II – 33,887,500, Tier III – 38,728,571, and Tier IV – 44,686,813), of which 205,827,454 were previously granted. All Options were cancelled on June 12, 2020 and the Prior Plan was terminated on November 16, 2020.

On December 16, 2020, concurrent with the closing of the RTO, Quendale's stock option plan became the stock option plan of the Company (the "Current Plan"). The Current 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 tables summarize the combined status of the Prior and Current Plans and activity during the years ending December 31, 2020 and December 31, 2019.

	December 31, 2020		December 31, 2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	205,827	$ 1.67	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 year	11,675	$ 0.20	205,827	1.67
Exercisable, end of year	-	$ -	-	$ -

The weighted average contractual term of all outstanding options as at December 31, 2020 is 4.96 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 Prior Plan) was likely to occur. As a result of the cancellation of the stock options and in accordance with 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

As a result of the grant of options, the Company recognized $94 thousand as stock-based compensation expense with a corresponding increase to contributed surplus.

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.

d) Earnings (loss) per share

The following table reconciles the denominators used for the basic and diluted earnings (loss) per share calculations:

	Year ended December 31, 2020	Year ended December 31, 2019
Weighted average number of common shares	79,439	76,332
Diluted weighted average number of common shares	79,439	76,332

The calculation of the diluted earnings (loss) per share for the years ended December 31, 2020 and 2019 excludes the effect of all stock options as their impact would have been anti-dilutive.

11. 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:

	Year ended December 31, 2020	Year ended December 31, 2019
Production revenue		
Crude oil	$ 9,724	$ 20,170
Natural gas liquids	3,049	3,328
Natural gas	4,747	4,313
	17,520	27,811
Processing income	665	757
Total revenue	$ 18,185	$ 28,568

12. INCOME TAXES

The actual income tax provisions differ from the expected amounts calculated by applying the Canadian combined federal and provincial corporate tax rates to losses before income tax. These differences result from the following:

	Year ended December 31, 2020	Year ended December 31, 2019
Loss before income taxes	$ (19,742)	$ (2,668)
Combined federal and provincial income tax rates	24.0%	26.5%
Expected income tax provision (recovery)	(4,738)	(707)
Increase (decrease) resulting from:		
Change in enacted tax rates	129	(190)
Non-deductible stock-based compensation	3,568	-
Non-deductible transaction costs	354	-
Other non-deductible items	4	9
Deferred income tax expense (recovery)	$ (683)	$ (888)

In 2020, the blended statutory tax rate was 24.0% (December 31, 2019 – 26.5%). The Federal corporate tax rate remained at 15% for 2019 and 2020, but on July 1, 2019, the Alberta corporate income tax rate decreased from 12% to 11%. This rate was reduced to 10% on January 1, 2020, and further reduced to 8% on July 1, 2020.

The Company's non-capital tax losses expire between 2034 and 2040. The components of the Company's income tax assets and liabilities are as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Deferred income tax liabilities		
Property, plant and equipment	$ (12,651)	$ (12,137)
Deferred income tax assets		
Decommissioning liabilities	7,699	7,364
Lease obligations	235	207
Commodity contracts	36	173
Share issue costs (net of tax)	-	2
Non-capital losses	3,899	2,921
Other	-	5
Deferred income tax liability	$ (782)	$ (1,465)

The following tables provide a continuity of the deferred tax liability:

	January 1, 2020	Recognized in Equity	Recognized in profit or loss	December 31, 2020
Property, plant & equipment	$ 12,137	$ -	$ 514	$ 12,651
Decommissioning liabilities	(7,364)	-	(335)	(7,699)
Lease obligations	(207)	-	(28)	(235)
Commodity contracts	(173)	-	137	(36)
Non-capital losses	(2,921)	-	(978)	(3,899)
Other	(7)	-	7	-
	$ 1,465	$ -	$ (683)	$ 782

	January 1, 2019	Recognized in Equity	Recognized in profit or loss	December 31, 2019
Property, plant & equipment	$ 12,942	$ -	$ (805)	$ 12,137
Decommissioning liabilities	(8,311)	-	947	(7,364)
Lease obligations	-	-	(207)	(207)
Commodity contracts	554	-	(727)	(173)
Non-capital losses	(2,825)	-	(96)	(2,921)
Other	(7)	-	-	(7)
	$ 2,353	$ -	$ (888)	$ 1,465

13. FINANCE COSTS

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

	Year ended December 31, 2020	Year ended December 31, 2019
Interest and borrowing costs	$ 118	$ 96
Interest income	(41)	(5)
Accretion on decommissioning liabilities	373	550
Interest on lease obligations	34	45
Total finance costs	$ 484	$ 686

14. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

	Year ended December 31, 2020	Year ended December 31, 2019
Source (use) of cash		
Accounts receivable	$ 504	$ (664)
Prepaid expenses and deposits	123	82
Accounts payable and accrued liabilities	363	(1,099)
Change in non-cash working capital	$ 990	$ (1,681)

	Year ended December 31, 2020	Year ended December 31, 2019
Change related to:		
Operating activities	$ 1,176	$ (767)
Financing activities	-	-
Investing activities	(186)	(914)
Change in non-cash working capital	$ 990	$ (1,681)
Interest paid	$ -	$ -

15. 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 consolidated 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, when in an asset position.

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 December 31, 2020, three (December 31, 2019 – three) of these marketers owed the Company $1.4 million (December 31, 2019 - $2.0 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.

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

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

	December 31, 2020	December 31, 2019
Cash and cash equivalents	$ 4,853	$ 4,340
Accounts receivable	2,127	2,631
Fair value of commodity contracts	-	-
Total	$ 6,980	$ 6,971

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 year ended December 31, 2020, the Company wrote off $42 thousand in accounts receivable (December 31, 2019 - $nil). As at December 31, 2020, there was $14 thousand (December 31, 2019 - $88 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 December 31, 2020, 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 $5.0 million (December 31, 2019 – $5.5 million).

The following table details the Company's financial liabilities as at December 31, 2020:

	Carrying value	Contractual cash flow	Less than one year	One-three years	Greater than three years
Accounts payable and accrued liabilities	$ 2,390	$ 2,390	$ 2,390	$ -	$ -
Fair value of commodity contracts	157	157	129	28	-
Lease obligations	1,023	1,136	335	597	204
Total	$ 3,570	$ 3,683	$ 2,854	$ 625	$ 204

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 December 31, 2020, the following commodity contracts were outstanding:

Commodity	Contract type	Term	Notional volume	Price	Reference
Gas	Fixed price	Jan 1/21 – Mar 31/21	1,000 gj/d	$2.205	AECO
Gas	Fixed price	Jan 1/21 – Mar 31/21	1,000 gj/d	$2.28	AECO
Gas	Fixed price	Jan 1/21 – Mar 31/21	1,000 gj/d	$2.72	AECO
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 year ended December 31, 2020, 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 year ended December 31, 2020.

16. 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.

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 December 31, 2020, the ratio of net debt to adjusted funds flow was n/a (December 31, 2019 – n/a), calculated as follows:

Net debt	**December 31, 2020**	**December 31, 2019**
Working capital	$ 4,517	$ 4,628
Fair value of commodity contracts	129	718
Lease obligations	334	200
Adjusted working capital (net debt)	$ 4,980	$ 5,546

Adjusted funds flow	**Three months ended December 31, 2020**	**Three months ended December 31, 2019**
Cash flow from operations	$ 859	$ 3,316
Decommissioning expenditures	55	(19)
Transaction costs	485	-
Changes in non-cash working capital	(17)	(472)
Adjusted funds flow	$ 1,382	$ 2,825
Annualized adjusted funds flow	$ 5,528	$ 11,300
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 7) and contains certain covenants regarding the volume and length of hedging activities.

17. COMMITMENTS

As at December 31, 2020, the Company had commitments as follows:

Commitment	2021	2022	2023	Thereafter	Total
Transportation	$ 314	$ 175	$ 20	$ 7	$ 516

18. KEY MANAGEMENT PERSONNEL

The Company considers its directors and officers to be key management personnel. The aggregate expenses of key management personnel were as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Short-term employee benefits and director fees [(1)]	$ 1,360	$ 1,462
Stock-based compensation	68	-
Total compensation	$ 1,428	$ 1,462

[(1)] Includes salaries and other short-term compensation.