HIGHWOOD OIL COMPANY LTD.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2021

(unaudited)

The accompanying condensed interim consolidated financial statements for Highwood Oil Company Ltd. have been prepared by management in accordance with International Financial Reporting Standards. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Highwood Oil Company Ltd.
Condensed Interim Consolidated Statement of Financial Position

(all tabular amounts expressed in thousands in Canadian dollars) (unaudited)	Note	**As at March 31 2021**	As at December 31 2020
Assets			
Current assets			
Cash		**$ 1,270**	$ 5,675
Accounts receivable	4, 14(a)	**5,741**	5,256
Deposits and prepaid expenses		**256**	1,294
Reclamation deposits		**123**	123
Assets held for sale	5	**-**	38,520
Total current assets		**7,390**	50,868
Reclamation deposits		**18**	18
Exploration and evaluation assets	6	**1,328**	1,236
Property, plant and equipment	7	**13,007**	13,386
Right-of-use assets		**118**	142
Total assets		**$ 21,861**	$ 65,650
Liabilities			
Current liabilities			
Bank debt	8	**$ 1,500**	$ 7,000
Accounts payable and accrued liabilities		**6,337**	8,360
Commodity contracts	14(b)	**1,317**	109
Current portion of lease liabilities		**97**	100
Liabilities associated with assets held for sale	5	**-**	36,540
Total current liabilities		**9,251**	52,109
Lease liabilities		**29**	49
Decommissioning liabilities	9	**3,051**	3,261
Deferred tax liability		**302**	468
Total liabilities		**12,633**	55,887
Shareholders' Equity			
Share capital	11	**16,310**	16,310
Contributed surplus	12	**2,384**	2,141
Deficit		**(9,466)**	(8,688)
Total equity		**9,228**	9,763
Total liabilities and shareholders' equity		**$ 21,861**	$ 65,650

Subsequent events (note 17)

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Approved by the Board:

"signed", Stephen J Holyoake, Director

"signed", Trevor Wong-Chor, Director

Highwood Oil Company Ltd.
Condensed Interim Consolidated Statement of Loss and Comprehensive loss

(all tabular amounts expressed in thousands in Canadian dollars, except per share information)
(unaudited)

	Note	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Revenue			
Oil sales	3	**$ 5,158**	$ 6,545
Royalties		**(364)**	(728)
Transportation pipeline revenues		**969**	1,160
Processing and other income	3	**269**	522
		6,032	7,499
Realized gain (loss) on commodity contracts	14(b)	**(649)**	868
Unrealized gain (loss) on commodity contracts	14(b)	**(1,208)**	7,898
Total revenue, net of royalties and commodity contracts		**4,175**	16,265
Expenses			
Operating and transportation		**3,350**	5,314
General and administrative		**1,321**	1,409
Depletion and depreciation	7, 8	**205**	2,484
Impairment loss		**-**	11,124
Bad debt recovery		**(64)**	-
Stock-based compensation expense	12	**243**	271
Total expenses		**5,055**	20,602
Operating loss		**(880)**	(4,337)
Other income (expenses)			
Gain (loss) on disposal of assets	5	**(2)**	586
Listing expense and transaction costs		**-**	(114)
Finance income and expenses, net	10	**(62)**	(700)
Total other expenses		**(64)**	(228)
Loss before taxes		**(944)**	(4,565)
Deferred tax recovery		**166**	841
Loss and comprehensive loss for the period		**$ (778)**	$ (3,724)
Loss per share			
Basic and Diluted	11(c)	**$ (0.13)**	$ (0.62)

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

Highwood Oil Company Ltd.

Condensed Interim Consolidated Statement of Changes in Shareholders’ Equity

(all tabular amounts expressed in thousands in Canadian dollars)
(unaudited)

	Note	Share capital	Contributed surplus	Retained earnings (Deficit)	Total equity
Balance, January 1, 2021		**$ 16,310**	**$ 2,141**	**$ (8,688)**	**$ 9,763**
Stock-based compensation	**12**	**-**	**243**	**-**	**243**
Loss and comprehensive loss for the period		**-**	**-**	**(778)**	**(778)**
Balance, March 31, 2021		**$ 16,310**	**$ 2,384**	**$ (9,466)**	**$ 9,228**
Balance, January 1, 2020		$ 16,310	$ 1,091	$ 596	$ 17,997
Stock-based compensation	12	-	271	-	271
Loss and comprehensive loss for the period		-	-	(3,724)	(3,724)
Balance, March 31, 2020		$ 16,310	$ 1,362	$ (3,128)	$ 14,544

See the accompanying notes to the Condensed Interim Consolidated Financial Statements

Highwood Oil Company Ltd.
Condensed Interim Consolidated Statement of Cash Flows

(all tabular amounts expressed in thousands in Canadian dollars)
(unaudited)

	Note	**Three Months Ended March 31, 2021**	Three Months Ended March 31, 2020
Cash provided by (used in):			
Operating activities			
Loss for the period		**$ (778)**	$ (3,724)
Items not involving cash:			
Unrealized (gain) loss on commodity contracts	14(b)	**1,208**	(7,898)
Depletion and depreciation expense	6, 7	**205**	2,484
Impairment loss		**-**	11,124
Finance expense	10	**13**	246
Deferred tax recovery		**(166)**	(841)
Stock-based compensation	12	**243**	271
(Gain) Loss on disposal of assets	6	**2**	(586)
Cash abandonment expenditures	9	**(1)**	-
Change in non-cash working capital	13	**(2,058)**	2,712
Net cash from (used in) operating activities		**(1,332)**	3,788
Financing activities			
Payments of lease obligations		**(25)**	(34)
Bank debt, net of repayments	8	**(5,500)**	-
Net cash from financing activities		**(5,525)**	(34)
Investing activities			
Additions to property, plant and equipment	7	**(22)**	(4,136)
Additions to exploration and evaluation assets	6	**(92)**	(55)
Additions to assets held for sale	5	**(3)**	-
Proceeds on disposition of exploration and evaluation assets		**-**	648
Proceeds on disposition of assets held for sale	5	**1,981**	-
Change in non-cash working capital	13	**588**	428
Net cash from (used) in investing activities		**2,452**	(3,115)
Change in cash		**$ (4,405)**	$ 639
Cash (bank overdraft), beginning of period		**5,675**	(183)
Cash, end of period		**$ 1,270**	$ 456

Supplemental cash flow information	13

See the accompanying Notes to the Condensed Interim Consolidated Financial Statements

1. REPORTING ENTITY

Highwood Oil Company Ltd. (the "Company") is a public oil and natural gas exploration, development and production Company incorporated in Alberta, Canada on August 24, 2012. The Company conducts its operations in the Western Canadian Sedimentary basin, primarily in the province of Alberta. The Company's principal place of business is located at Suite 900, 222 – 3rd Avenue SW, Calgary, Alberta, T2P 0B4.

The Company's common shares trade on the TSX Venture Exchange under the symbol "HOCL".

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary at March 31, 2021, Cataract Creek Environmental Ltd.

These Condensed Interim Consolidated Financial Statements were approved and authorized for issuance by the Board of Directors on May 28, 2021.

2. BASIS OF PREPARATION

(a) Statement of compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (IAS) 34, "Interim Financial Reporting", using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Certain information and disclosures normally included in the annual financial statements prepared in accordance with IFRS have been condensed or omitted.

The condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2020 and the notes thereto.

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2020. All accounting policies and methods of computation followed in the preparation of these condensed interim consolidated financial statements are consistent with those of the previous financial year.

(b) Use of estimates and judgments

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of income and expenses during the reporting period. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions and judgments 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.

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

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 pandemic and subsequent measures intended to limit its spread, contributed to significant volatility in global financial markets. The pandemic has adversely impacted global commercial activity.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 effectiveness of available vaccines and the severity and spread of the virus. The pandemic presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results. The Company's financial performance, operations and business are particularly sensitive to a reduction in the demand for prices of crude oil and natural gas. The potential direct and indirect impact of COVID-19 has been considered in management's estimates and assumptions at period end and have been reflected in the Company's results with any significant changes described in the relevant financial statements notes.

More specifically, assumptions may change that are involved in the estimates of valuation of exploration and evaluation assets and property and equipment cash generating units, the timing of decommissioning obligations, the fair value of commodity contracts, the expected credit loss provisions related to accounts receivable as well as liquidity and going concern assessments.

A full list of significant estimates and judgments can be found in note 2(d) of the Company's annual financial statements for the year ended December 31, 2020. COVID-19 and current market conditions have increased the complexity of estimates and assumptions used to prepare the condensed interim consolidated financial statements.

3. REVENUE

Oil sales:

The Company sells its production pursuant to variable-price contracts. The transaction price for variable price 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 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 and control of the product transferred.

Revenues are typically collected on the 25th day of the month following production.

The following table summarizes the Company's product sales.

	Three Months Ended March 31,	
	2021	2020
Total Oil Sales	**$ 5,158**	$ 6,545

Processing and other income:

The following table summarizes the Company's processing and road use revenues.

	Three Months Ended March 31,	
	2021	2020
Processing	**$ 178**	$ 321
Road Use	**91**	201
Total	**$ 269**	$ 522

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	March 31, 2021	December 31, 2020
Oil marketers	**$ 2,651**	$ 2,709
Joint interest partners	**2,156**	1,885
Road use receivable	**597**	557
Other	**337**	105
Balance, end of period	**$ 5,741**	$ 5,256

5. DISPOSITIONS

On March 25, 2021, the Company closed the disposition of the Company's Red Earth CGUs to an arm's-length company for gross proceeds of $2.0 million cash, prior to customary closing adjustments. The transaction was effective on the date of closing. The disposed properties had a net book value in assets held for sale of $38.52 million and liabilities associated with assets held for sale of $35.95 million. As a result of the disposition, the Company recognized a gain on disposal of asset of $4 thousand during the three month period ended March 31, 2021. Transaction costs totalling $14 thousand have reduced the gain recorded.

The final proceeds and loss on disposal are subject to adjustment upon finalization of the final statement of adjustments, which is expected to occur in the third quarter of 2021 and no material adjustments are expected.

6. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets are comprised of the following:

	March 31, 2021	December 31, 2020
Balance, beginning of period	$ 1,236	$ 7,569
Additions	92	123
Dispositions	-	(5,187)
Land lease expiries	-	(15)
Impairment	-	(1,254)
Balance, end of period	$ 1,328	$ 1,236

Exploration and evaluation assets include undeveloped lands and undeveloped mineral permits where management has not fully evaluated for technical feasibility and commercial viability.

Additions in the three month period ended March 31, 2021 mainly related to industrial metals and mineral permits that the Company has acquired.

At March 31, 2021, there were no indicators of impairment.

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

7. PROPERTY, PLANT AND EQUIPMENT

Oil and natural gas properties	**March 31, 2021**	December 31, 2020
COSTS		
Balance, beginning of period	**$ 19,675**	$ 128,555
Change in decommissioning liabilities (note 9)	**(182)**	4,741
Additions	**22**	4,588
Transfers to assets held for sale	**-**	(99,501)
Dispositions	**-**	(18,708)
Balance, end of period	**$ 19,515**	$ 19,675
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT		
Balance, beginning of period	**$ (6,289)**	$ (37,662)
Transfers to assets held for sale	**-**	60,981
Depletion and depreciation	**(219)**	(5,811)
Impairment loss	**-**	(27,486)
Dispositions	**-**	3,689
Balance, end of period	**$ (6,508)**	$ (6,289)
Net book value, end of period	**$ 13,007**	$ 13,386

At March 31, 2021, there were no indicators of impairment or impairment reversal.

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

8. BANK DEBT

The Company has a $10.0 million operating facility. This operating facility bears interest at the Bank's prime rate of bankers acceptance discount rates plus an applicable margin of 300bps to 550bps on prime rate loans and 400bps to 650bps on stamping fees related to bankers acceptances, determined by reference to the Company's net debt to cash flow ratio (as defined in the bank facility agreement). Interest on the bank facility is due monthly. This bank facility is secured by a $100.0 million debenture with a fixed and floating charge over all the assets of the Company.

The Company is required to maintain an adjusted working capital ratio of not less than 1.0:1.0, and such ratio is to be tested at the end of each fiscal quarter. Current ratio is defined as the ratio of (i) current assets, excluding financial derivatives to (ii) current liabilities, excluding financial derivatives, any amounts drawn under the bank facility and any current liabilities related to lease contracts. At March 31, 2021, the Company's current ratio was 2.51:1.0 (December 31, 2020 – 1.13:1:00). The Company is required to maintain a net debt to cash flow ratio no greater than 2.0:1.0 for each quarter beginning with the fiscal quarter ended March 31, 2021. As March 31, 2021 the Company's net debt to cash flow ratio is 0.15:1.0 (December 31, 2020 – 0.87:1.0). For the purposes of the covenant, net debt is defined by the agreement as working capital deficit (excluding financial derivatives) plus bank debt and cash flow is defined as cash flow from operating activities before changes in non-cash working capital normalized for extraordinary and nonrecurring earnings, gains, and losses. Cashflows are determined as i)the most recent quarter annualized for the quarter ended March 31, 2021, ii) the most recent six months annualized for the quarter ended June 30, 2021, iii) the most recent nine months annualized for the quarter ended September 30, 2021 and iv) the trailing four quarters for the quarter ended December 31, 2021 and all quarters thereafter. The Company is also required to meet certain reporting requirements on a quarterly and annual basis. The Company is also restricted from entering into notional commodity contracts exceeding thirty-six months in term and cannot exceed 60% of gross production volumes (by commodity) for the three month trailing period, at the time the contracts are entered into. The Company's next review and borrowing base determination was amended to be on or before July 15~~ne 30~~, 2021 but may be set at an earlier or later date at the discretion of the bank.

9. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas properties including well sites and facilities. The Company has estimated the net present value of the decommissioning liabilities to be $3.05 million as at March 31, 2021 (December 31, 2020 - $3.26 million) based on an undiscounted total future liability of $3.66 million (December 31, 2020 - $3.53 million) and discounted using a long-term risk-free rate of 1.97% (December 31, 2020 – 1.21%) and an inflation rate of 1.69% (December 31, 2020 – 1.49%). The expected timing of decommissioning expenditures extends to 2071.

The following table summarizes changes in the decommissioning liabilities:

	March 31, 2021	December 31, 2020
Balance, beginning of period	**$ 3,261**	$ 31,099
Change in discount rate	**(310)**	3,073
Change in cash flow estimates	**90**	5,861
Abandonment expenditures	**(1)**	(18)
Additions	**-**	404
Liabilities disposed in asset dispositions	**-**	(1,642)
Liabilities transferred to held for sale	**-**	(35,945)
Accretion expense (note 10)	**11**	429
Balance, end of period	**$ 3,051**	$ 3,261

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

The carrying value of certain oil and natural gas properties of the Company is $nil. Accordingly, the change in discount rate and cash flow estimates related to these properties was recorded as a reduction to depletion and depreciation expense for the three month period ended March 31, 2021 of $38 thousand (three month period ended March 31, 2020 of $2 thousand).

10. FINANCE INCOME AND EXPENSES, NET

Finance income and expenses, net is comprised of:

	Three Months Ended March 31,	
	2021	2020
Interest on bank debt	**$ 23**	$ 178
Stamping fees on bank debt	**26**	277
Financing fees	**-**	105
Accretion of decommissioning liabilities (note 9)	**11**	137
Accretion of lease liabilities	**2**	3
Total	**$ 62**	$ 700

11. SHARE CAPITAL

a) Authorized

Unlimited number of voting common shares and unlimited number of preferred shares issuable in series.

b) Issued and outstanding common shares

	Number of Shares (000's)	Stated Value
Balance, December 31, 2020 and March 31, 2021	6,014	$16,310

c) Loss per share

	Three Months Ended March 31, 2021			Three Months Ended March 31, 2020		
	Net loss	**Common shares**	**Loss per share**	Net Loss	Common shares	Loss per share
Loss - basic	**$ (778)**	**6,014**	**$ (0.13)**	$ (3,724)	6,014	$ (0.62)
Dilutive effect of options	-	-	-	-	-	-
Loss - diluted	**$ (778)**	**6,014**	**$ (0.13)**	$ (3,724)	6,014	$ (0.62)

For the three month period ended March 31, 2021 and 2020 all options and RSU's were excluded as they were anti dilutive.

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

12. SHARE-BASED PAYMENTS

Options

A summary of the stock options issued and outstanding as at March 31, 2021 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2020	173	$ 11.95
Forfeited	(6)	12.80
Outstanding, March 31, 2021	167	$ 11.92
Exercisable, March 31, 2021	80	$ 9.11

The weighted average contractual term of all outstanding options at March 31, 2021 is 3.25 years.

During the three-month period ended March 31, 2021, the Company recorded stock-based compensation expense relating to options of $85 thousand (three months ended March 31, 2020 - $90 thousand) with a corresponding increase to contributed surplus.

Restricted Share Units (“RSUs”)

A summary of the RSUs issued and outstanding as at March 31, 2021 are as follows:

	Number of RSUs
Outstanding, December 31, 2020	155
Forfeited	(6)
Outstanding, March 31, 2021	149
Exercisable, March 31, 2021	62

The weighted average contractual term of all outstanding RSUs at March 31, 2021 is 2.03 years.

During the three month period ended March 31, 2021, the Company recorded stock-based compensation expense relating to RSUs of $158 thousand (three months ended March 31, 2020 - $181 thousand) with a corresponding increase to contributed surplus.

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

13. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

	Three Months Ended March 31,	
Source/(use) of cash	**2021**	2020
Accounts receivable	**$ (485)**	$ 2,765
Deposits and prepaid expenses	**1,038**	43
Accounts payable and accrued liabilities	**(2,023)**	332
Changes in non-cash working capital	**$ (1,470)**	$ 3,140
The above figure relates to:		
Operating activities	**$ (2,058)**	$ 2,712
Investing activities	**588**	428
Changes in non-cash working capital	**$ (1,470)**	$ 3,140
Interest paid	**$ 49**	$ 454
Taxes paid (recovered)	**$ -**	$ -

14. FINANCIAL RISK MANAGEMENT

The Board of Directors has the overall responsibility for the establishment and oversight and execution of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor those risks.

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 such as:

- credit risk;
- market risk; and
- liquidity risk.

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. There were no changes to the Company's risk management policies or processes since the year ended December 31, 2020.

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

(a) 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. The maximum exposure to credit risk at year end is as follows:

	March 31, 2021	December 31, 2020
Cash	**$ 1,270**	$ 5,675
Accounts receivable	**5,741**	5,256
Deposits	**135**	136
Reclamation deposits	**141**	141
Total	**$ 7,287**	$ 11,208

Cash:

Cash consist of amounts on deposit with Canadian chartered banks and undeposited funds. The Company manages credit exposure of cash, if any, by selecting financial institutions with high credit ratings.

Accounts receivable:

Substantially all of the Company's oil and natural gas production is marketed under standard industry terms. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit worthy purchasers. Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs.

The Company's accounts receivable are aged as follows:

	March 31, 2021	December 31, 2020
Current (less than 90 days)	**$ 4,675**	$ 3,269
Past due (more than 90 days)	**1,066**	1,987
Total	**$ 5,741**	$ 5,256

As at March 31, 2021, management believes all receivables net of provision for expected credit losses will be collected.

(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates, will affect the Company's cash flow, income or the value of its financial instruments. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return. There have been no changes to the Company's policies for managing foreign currency risk, interest rate risk and commodity price risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rates between the Canadian and United States dollar.

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is subject to interest rate risk related to its exposure to interest rate fluctuations on its bank facility, which bears a floating rate of interest. At March 31, 2021 the total amount drawn on the bank facility under a bankers' acceptance ("BA") was $1.5 million which is at a fixed rate basis, therefore not subject to interest rate risk until renewal of the BA's. A 1% interest rate increase or decrease on the full $1.5 million outstanding would decrease or increase net income by approximately $3 thousand for the quarter ended March 31, 2021.

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also North American and global economic events that dictate the levels of supply and demand. The nature of the Company's operations results in exposure to fluctuations in commodity prices. The Company's production is sold using "spot" pricing with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company currently has the following commodity contracts outstanding at March 31, 2021.

CAD Sell Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	50bbls/day	January 1, 2021 to June 30, 2021	$ 57.15	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2021 to June 30, 2021	$ 55.64	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2021 to June 30, 2021	$ 55.20	WTI - NYMEX
Crude Oil	150bbls/day	January 1, 2021 to June 30, 2021	$ 65.40	WTI - NYMEX
Crude Oil	250bbls/day	July 1, 2021 to December 31, 2021	$ 65.40	WTI - NYMEX

CAD Buy Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	275bbls/day	April 1, 2021 to June 30, 2021	$ 81.30	WTI - NYMEX
Crude Oil	125bbls/day	July 1, 2021 to December 31, 2021	$ 77.85	WTI - NYMEX

Participating Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	150bbls/day	January 1, 2021 to June 30, 2021	$ 50.50 with a 50 % participation above $50.50	WTI - NYMEX

The commodity contracts had a total fair value at March 31, 2021 of a liability of $1.32 million (December 31, 2020 – liability of $109 thousand). The corresponding unrealized loss for the three-month period ended March 31, 2021 was $1.21 million (three months ended March 31, 2020 – unrealized gain of $7.9 million) and is included in the statement of Loss and Comprehensive Loss. Total realized losses for the three month period ended March 31, 2021 were $649 thousand (three month period ended March 31, 2020 – gains of $868 thousand) and are also included in the statement of Loss and Comprehensive Loss.

For the three-month period ended March 31, 2021, a $0.10/bbl increase/decrease in oil prices would have a negative/positive impact on net income of approximately $4 thousand.

(all tabular amounts expressed in thousands of Canadian dollars, except per share information)

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities as they become due. The Company's financial liabilities consist of accounts payable and accrued liabilities and bank debt, all of which are due within a year, lease liabilities which are due within a year, and commodity contract liabilities which will all be settled within one year. The Company also maintains and monitors a certain level of cash flow which is used to partially finance all operating and capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas sales on the 25th of each month.

At March 31, 2021, the Company had negative working capital of $361 thousand, excluding bank debt (note 8). The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows and through deleveraging transactions. The Company also has a bank facility (note 8) to facilitate the management of liquidity risk and is in compliance with all associated financial covenants at March 31, 2021. At March 31, 2021, $8.5 million was available under the bank facility. The operating facility of $10 million matures July 15~~ne 30~~, 2021, therefore the bank facility has been classified as current.

The Company may need to conduct equity issues or issue debt if liquidity risk increases in a given period. Liquidity risk may increase as a result of a change in the amounts settled monthly from the commodity contract (note 14(b)), along with potential revisions to the Company's borrowing base (note 8) or unforeseen circumstances related to the continued impacts of COVID-19 on the economy. With the sale of the Red Earth CGUs in March of 2021 (note 5), the Company has more notional volumes under forward contracts (note 14(b)) than current oil production, so is exposed to a greater degree of cash flow uncertainty should oil prices rise. The Company believes it has sufficient funds to meet foreseeable obligations by actively monitoring its credit facilities through use of the revolving debt and coordinating payment and revenue cycles each month.

15. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities; and
- To maximize shareholder return through enhancing share value.

The Company considers its capital employed to be bank debt and shareholders' equity:

	March 31, 2021	December 31, 2020
Bank debt	**$ 1,500**	$ 7,000
Shareholder's equity	**$ 9,228**	$ 9,763
Capital employed	**$ 10,728**	$ 16,763

The Company monitors capital based on adjusted working capital, defined as current assets less current liabilities (excluding bank debt and commodity contracts).

Adjusted working capital

	March 31, 2021	December 31, 2020
Adjusted current assets	**$ 7,390**	$ 50,868
Adjusted current liabilities	**(6,434)**	(45,000)
Adjusted working capital surplus	**$ 956**	$ 5,868

The Company makes adjustments to capital employed by monitoring economic conditions and investment opportunities. The Corporation generally relies on credit facilities and cash flows from operations in excess of dividends to fund capital requirements. To maintain or modify its capital structure, the Company may issue new common or preferred shares, issue new subordinated debt, renegotiate existing debt terms, or repay existing debt. The Company is not currently subject to any externally imposed capital requirements, other than covenants on its bank debt (note 8).

The Company also monitors capital structure based on net debt to cash flow. The definition of net debt to cash flow for capital management purposes is the same measure used in the calculation of the Company's financial covenants on its bank facility (note 8). The Company's strategy is to monitor the ratio and the ratio can, and will, fluctuate based on the timing of commodity prices and the mix of exploratory and development drilling.

16. RELATED PARTY TRANSACTIONS

(a) Transactions

Except as discussed elsewhere, the Company had the following transactions with related parties:

During the three month period ended March 31, 2021, the Company incurred charges of $86 thousand (three month period ended March 31, 2020 – $86 thousand) from a company with common officers and directors for management fees, office space, subscriptions and supplies of which $56 thousand (three month period ended March 31, 2020 – $56 thousand) was recorded as an increase in general and administrative expense and $30 thousand (three month period ended March 31, 2020 – $30 thousand) was recorded as a reduction to lease liabilities. In addition, the Company was charged $nil (three month period ended March 31, 2020 - $93 thousand) for net non-operated gas sales, butane purchases and gas processing fees which is included in operating and transportation expense. During the three-month period ended March 31, 2021, the Company was also charged $nil (three-month period ended March 31, 2020 - $573 thousand) for propane purchases and distribution from this company which is included in operating and transportation expenses on the statement of Loss and Comprehensive Loss. As at March 31, 2021, $nil (December 31, 2020 - $4 thousand) is included within accounts receivable and $135 thousand (December 31, 2020 - $249 thousand) is included within accounts payable with respect to these charges.

17. SUBSEQUENT EVENTS

(a) Subsequent to March 31, 2021, the Company incorporated a wholly owned subsidiary, Renewable EV Battery Cleantech Corp. ("REBC"). REBC will focus on clean renewable energy technology and has had minimal operations to date.

(b) Subsequent to March 31, 2021, the Company incorporate a wholly owned subsidiary, 2339364 Alberta Ltd ("2339364"). 2339364 will focus on industrial metals and minerals and has had minimal operations to date.