

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED
MARCH 31, 2019



TSX: PSK

HIGH MARGINS
ZERO CAPITAL

PRAIRIESKY
ROYALTY LTD

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)**

| (millions) | | As at March 31, 2019 | As at December 31, 2018 |
|---|------------------|-------------------------|----------------------------|
| Assets | | | |
| Current Assets | | | |
| Accounts receivable and accrued revenue | <i>(Note 4)</i> | \$ 48.8 | \$ 15.7 |
| Income tax receivable | | - | 4.0 |
| Prepays | | 0.8 | 0.9 |
| | | 49.6 | 20.6 |
| Royalty assets, net | <i>(Note 5)</i> | 740.3 | 756.5 |
| Exploration and evaluation assets | <i>(Note 6)</i> | 1,398.4 | 1,408.8 |
| Goodwill | | 631.0 | 631.0 |
| Total Assets | | \$ 2,819.3 | \$ 2,816.9 |
| Liabilities and Shareholders' Equity | | | |
| Current Liabilities | | | |
| Bank debt | <i>(Note 7)</i> | \$ 16.6 | \$ 5.8 |
| Accounts payable and accrued liabilities | <i>(Note 8)</i> | 22.0 | 10.0 |
| Income tax payable | | 2.0 | - |
| Dividend payable | <i>(Note 10)</i> | 15.2 | 15.2 |
| | | 55.8 | 31.0 |
| Lease obligation | <i>(Note 9)</i> | 2.7 | - |
| Share-based compensation payable | <i>(Note 11)</i> | 0.4 | 1.1 |
| Deferred income taxes | | 211.9 | 211.2 |
| Total Liabilities | | 270.8 | 243.3 |
| Shareholders' Equity | | | |
| Shareholders' capital | <i>(Note 10)</i> | 3,304.1 | 3,308.8 |
| Paid in surplus | | 5.2 | 4.8 |
| Deficit | | (760.8) | (740.0) |
| Total Shareholders' Equity | | 2,548.5 | 2,573.6 |
| Total Liabilities and Shareholders' Equity | | \$ 2,819.3 | \$ 2,816.9 |

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME
(UNAUDITED)**

| (millions, except per share amounts) | Three months ended March 31 | |
|---|-----------------------------|-------------|
| | 2019 | 2018 |
| Revenues | | |
| Royalty production revenue (Note 12) | \$ 66.5 | \$ 64.1 |
| Other revenue (Note 12) | 6.7 | 3.8 |
| Revenues | 73.2 | 67.9 |
| Expenses | | |
| Administrative (Note 13) | 6.7 | 5.4 |
| Production and mineral taxes | 1.4 | 1.5 |
| Depletion, depreciation and amortization (Note 5) | 31.3 | 35.0 |
| Exploration and evaluation (Note 6) | 0.3 | 0.5 |
| Net Earnings Before Finance Items and Income Taxes | 33.5 | 25.5 |
| Finance Items | | |
| Finance income | - | (0.2) |
| Finance expense | 0.4 | - |
| Net Earnings Before Income Taxes | 33.1 | 25.7 |
| Income tax expense (Note 14) | 6.7 | 5.9 |
| Net Earnings and Comprehensive Income | \$ 26.4 | 19.8 |
| Net Earnings per Common Share | | |
| Basic and Diluted (Note 10) | \$ 0.11 | \$ 0.08 |

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)**

| (millions) | Shareholders' Capital | Paid In Surplus | Deficit | Total Shareholders' Equity |
|--------------------------------------|--------------------------|-----------------|-------------------|----------------------------------|
| Balance at December 31, 2018 | \$ 3,308.8 | \$ 4.8 | \$ (740.0) | \$ 2,573.6 |
| Net earnings | - | - | 26.4 | 26.4 |
| Common shares repurchased (Note 10) | (4.7) | - | (1.6) | (6.3) |
| Share-based compensation (Note 11) | - | 0.4 | - | 0.4 |
| Dividends on common shares (Note 10) | - | - | (45.6) | (45.6) |
| Balance at March 31, 2019 | \$ 3,304.1 | \$ 5.2 | \$ (760.8) | \$ 2,548.5 |

| (millions) | Shareholders' Capital | Paid In Surplus | Deficit | Total Shareholders' Equity |
|--------------------------------------|--------------------------|-----------------|-------------------|----------------------------------|
| Balance at December 31, 2017 | \$ 3,334.3 | \$ 2.8 | \$ (617.1) | \$ 2,720.0 |
| Net earnings | - | - | 19.8 | 19.8 |
| Common shares repurchased (Note 10) | (7.0) | - | (8.4) | (15.4) |
| Share-based compensation (Note 11) | - | 0.5 | - | 0.5 |
| Dividends on common shares (Note 10) | - | - | (44.7) | (44.7) |
| Balance at March 31, 2018 | \$ 3,327.3 | \$ 3.3 | \$ (650.4) | \$ 2,680.2 |

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

| (millions) | Three months ended March 31 | |
|---|-----------------------------|---------|
| | 2019 | 2018 |
| Operating Activities | | |
| Net earnings | \$ 26.4 | \$ 19.8 |
| Depreciation, depletion and amortization (Note 5) | 31.3 | 35.0 |
| Exploration and evaluation (Note 6) | 0.3 | 0.5 |
| Deferred income taxes (Note 14) | 0.7 | 1.1 |
| Share-based compensation, net of cash settlements (Note 11) | (0.9) | (5.5) |
| Royalty note receivable | - | 0.9 |
| Funds from operations | 57.8 | 51.8 |
| Net change in non-cash working capital (Note 17) | (15.6) | (4.0) |
| Cash From Operating Activities | 42.2 | 47.8 |
| Investing Activities | | |
| Royalty asset acquisitions (Note 5) | (0.1) | (5.4) |
| Exploration and evaluation acquisitions (Note 6) | (1.5) | (15.8) |
| Cash Used in Investing Activities | (1.6) | (21.2) |
| Financing Activities | | |
| Dividends on common shares (Note 10) | (45.6) | (44.2) |
| Common shares repurchased (Note 10) | (6.3) | (15.4) |
| Bank debt (Note 7) | 10.8 | - |
| Payments on lease obligation (Note 9) | (0.1) | - |
| Net change in non-cash working capital (Note 17) | 0.6 | - |
| Cash Used in Financing Activities | (40.6) | (59.6) |
| Decrease in Cash and Cash Equivalents | - | (33.0) |
| Cash and Cash Equivalents, Beginning of Period | - | 45.1 |
| Cash and Cash Equivalents, End of Period | \$ - | \$ 12.1 |

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

NOTES TO THE MARCH 31, 2019 AND 2018 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(TABULAR AMOUNTS IN \$ MILLIONS UNLESS NOTED OTHERWISE)

1. NATURE OF OPERATIONS

PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") has a geologically and geographically diverse portfolio of fee simple mineral title, crude oil and natural gas gross overriding royalty interests and other acreage spanning Alberta, Saskatchewan, British Columbia and Manitoba (collectively, the "Royalty Properties"). The Company is focused on encouraging third parties to actively develop the Royalty Properties, while strategically seeking additional petroleum and natural gas royalty assets that provide the Company with medium-term to long-term value enhancement potential. The Company does not directly conduct operations to explore for, develop or produce petroleum or natural gas; rather, third-party development of the titled or leased lands provides the Company with royalty revenue as petroleum and natural gas are produced from such properties.

The Company's shares are publicly traded on the Toronto Stock Exchange ("TSX") under the stock symbol "PSK". The location of the head and registered office of the Company is Suite 1700, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9.

2. BASIS OF PRESENTATION

STATEMENT OF COMPLIANCE

These unaudited interim condensed consolidated financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" and should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2018. They do not include all of the information required for a complete set of IFRS financial statements; however, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes to the Company's financial position and performance since the last annual financial statements.

This is the first set of the Company's financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in Note 3.

These financial statements have been prepared on a historical cost basis, except for share-based payment transactions. The financial statements have been prepared on a going concern basis and amounts are in millions of Canadian dollars unless otherwise stated.

These financial statements were authorized for issuance by the Company's Audit Committee on April 22, 2019.

ESTIMATES

The timely preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

In preparing these financial statements, the judgments made by management in applying the Company's accounting policies and the key sources of significant estimation uncertainty were the same as those applied to the audited annual consolidated financial statements as at and for the year ended December 31, 2018.

3. CHANGES IN ACCOUNTING POLICIES

IFRS 16

The Company adopted IFRS 16 "Leases" on January 1, 2019. IFRS 16 introduces a single lease accounting model for lessees which requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease.

The Company adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a \$3.4 million increase to right-of-use assets (included in "royalty assets") with a corresponding increase to lease obligations (the non-current portion of \$2.8 million is recorded in "lease obligations" and the current portion of \$0.6 million is recorded in "accounts payable and accrued liabilities"). The right-of-use assets recognized were measured at amounts equal to the present value of the lease obligations. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 4.5%. The right-of-use asset and lease obligation recognized relate to the Company's head office lease in Calgary. The Company elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of the date of initial application.

The measurement of lease obligations are subject to management's judgment of the applicable incremental borrowing rate.

4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

| | As at March 31, 2019 | As at December 31, 2018 |
|---|-------------------------|----------------------------|
| Trade receivables and accrued revenue | \$ 39.4 | \$ 16.2 |
| Production and mineral taxes receivable <i>(Note 8)</i> | 10.4 | 0.5 |
| | 49.8 | 16.7 |
| Allowance for doubtful accounts | (1.0) | (1.0) |
| | \$ 48.8 | \$ 15.7 |

Trade receivables and accrued revenue relate to lease and royalty production payments receivable.

The analysis of accounts receivable and accrued revenue that are past due but not impaired is as follows:

| | Total | Neither past due nor impaired | Past due but not impaired | |
|--------------------------------|----------------|----------------------------------|---------------------------|---------------|
| | | | 4 - 6 Months | 7 - 12 Months |
| As at March 31, 2019 | \$ 48.8 | \$ 48.7 | \$ - | \$ 0.1 |
| As at December 31, 2018 | \$ 15.7 | \$ 15.3 | \$ 0.3 | \$ 0.1 |

In determining the recoverability of trade receivables that are past due but not impaired, the Company considers the age of the outstanding receivables and the credit worthiness of the counterparties. See Note 16 for further information about credit risk.

5. ROYALTY ASSETS, NET

| | As at March 31, 2019 | As at December 31, 2018 |
|---|-------------------------|----------------------------|
| Cost | | |
| Balance, Beginning of Period | \$ 1,346.7 | \$ 1,270.5 |
| Asset acquisitions | 0.1 | 19.6 |
| Transfers from exploration & evaluation assets (Note 6) | 11.6 | 56.6 |
| Increase in right-of-use asset (Note 9) | 3.4 | - |
| Balance, End of Period | 1,361.8 | 1,346.7 |
| Accumulated Depletion, Depreciation and Amortization | | |
| Balance, Beginning of Period | (590.2) | (450.3) |
| Depletion, depreciation and amortization | (31.3) | (139.9) |
| Balance, End of Period | (621.5) | (590.2) |
| Net Book Value, End of Period | \$ 740.3 | \$ 756.5 |

For the three month period ended March 31, 2019, royalty assets acquired totaled \$0.1 million (March 31, 2018 - \$5.4 million) which were primarily acquisitions of fee simple land.

6. EXPLORATION AND EVALUATION ASSETS ("E&E")

| | As at March 31, 2019 | As at December 31, 2018 |
|--------------------------------------|-------------------------|----------------------------|
| Cost | | |
| Balance, Beginning of Period | \$ 1,408.8 | \$ 1,431.8 |
| Asset acquisitions | 1.5 | 39.0 |
| Transfers to royalty assets (Note 5) | (11.6) | (56.6) |
| Land expiries | (0.3) | (5.4) |
| Balance, End of Period | \$ 1,398.4 | \$ 1,408.8 |

E&E asset acquisitions of \$1.5 million for the three month period ended March 31, 2019 (March 31, 2018 - \$15.8 million) included GORR interests acquired on non-producing assets, Crown land, and seismic. Included in the GORR interests acquired was \$0.7 million (March 31, 2018 - \$13.9 million) related to the acquisition of GORR interests on emerging oil plays.

7. BANK DEBT

At March 31, 2019, the Company had a \$200 million extendible revolving credit facility (the "Revolving Facility"), with a permitted increase to \$250 million, and a \$25 million extendible operating credit facility (the "Operating Facility", and together with the Revolving Facility, the "Credit Facility"), with a syndicate of Canadian banks. At March 31, 2019, \$16.6 million was drawn on the Operating Facility (December 31, 2018 - \$5.8 million). The Revolving Facility remains undrawn. The effective interest rate for the three month period ended March 31, 2019 was 4.5% (March 31, 2018 - nil%).

The Credit Facility includes borrowing options of Canadian prime rate-based advances, U.S. base rate advances, LIBOR loans, bankers' acceptances and letters of credit, and will bear interest on a variable grid based on certain financial ratios, over the prevailing applicable rate for the type of loan. The Credit Facility is unsecured and does not have a borrowing base restriction. The Revolving Facility and the Operating Facility are each for three-year terms maturing on May 15, 2021 and, subject to certain requirements, are extendible annually. The Credit Facility has three financial covenants, whereby the Company's ratio of adjusted consolidated senior debt to EBITDA will not exceed 3.5:1.0, adjusted consolidated total debt to EBITDA will not exceed 4.0:1.0, and the adjusted consolidated total debt to capitalization ratio will not exceed 55%. EBITDA used in the covenant calculation is net earnings adjusted for non-cash items, interest

expense and income taxes. As at March 31, 2019, the Company was compliant with all covenants provided for in the lending agreement.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | As at March 31, 2019 | As at December 31, 2018 |
|---|-------------------------|----------------------------|
| Trade payables | \$ 1.1 | \$ 1.1 |
| Production and mineral taxes payable | 15.0 | 3.8 |
| Accrued liabilities for cash settled share-based compensation (Note 11) | 3.3 | 3.9 |
| Current portion of lease obligation (Note 9) | 0.6 | - |
| Other accrued liabilities | 2.0 | 1.2 |
| | \$ 22.0 | \$ 10.0 |

Production and mineral taxes are billed annually in March for the province of Alberta. The gross payable is recorded when the bill is received, with a corresponding increase to accounts receivable for the amounts to be recovered from third-party lessees.

9. LEASE OBLIGATION

The Company has the following future commitments associated with its office lease obligations:

| | As at March 31, 2019 |
|--|-------------------------|
| Less than 1 year | \$ 0.7 |
| 2-3 years | 1.5 |
| 4-5 years | 1.5 |
| After 5 years | - |
| Total lease payments | 3.7 |
| Amounts representing interest over the term of the lease | (0.4) |
| Present value of net lease payments | 3.3 |
| Current portion of lease obligations (Note 8) | (0.6) |
| Non-current portion of lease obligations | \$ 2.7 |

For the three month period ended March 31, 2019, non-cash interest expense of \$30,000 was recognized relating to lease obligations. Total cash outflows of \$0.3 million for the three months ended March 31, 2019 include \$0.2 million of variable lease payments recognized in administrative expenses.

10. SHARE CAPITAL

AUTHORIZED

The authorized share capital of the Company includes an unlimited number of common shares and an unlimited number of preferred shares issuable in series. The holders of the common shares are entitled to one vote in respect of each common share held at all meetings of shareholders, except meetings at which only holders of a specified class of share have the right to vote. The common shares have no par value.

ISSUED AND OUTSTANDING

| | As at March 31, 2019 | | As at December 31, 2018 | |
|---|-----------------------------------|-------------------------|-----------------------------------|-------------------------|
| | Number of Shares (millions) | Amount (\$ millions) | Number of Shares (millions) | Amount (\$ millions) |
| Common Shares Outstanding, Beginning of Period | \$ 234.2 | \$ 3,308.8 | 236.0 | \$ 3,334.3 |
| Common shares repurchased | (0.3) | (4.7) | (1.8) | (25.5) |
| Common Shares Outstanding, End of Period | \$ 233.9 | \$ 3,304.1 | 234.2 | \$ 3,308.8 |

NORMAL COURSE ISSUER BID ("NCIB")

On April 30, 2018, the Company announced the approval of the renewal of its NCIB by the TSX. The NCIB allows the Company to purchase for cancellation up to a maximum of 1,750,000 common shares over a twelve-month period which commenced on May 4, 2018 and expires no later than May 3, 2019. All common shares purchased under the NCIB are cancelled.

During the three month period ended March 31, 2019, the Company purchased for cancellation 331,440 common shares (March 31, 2018 - 496,400 common shares) at an average cost of \$19.07 per common share (March 31, 2018 - \$31.01 per common share) for total consideration of \$6.3 million (March 31, 2018 - \$15.4 million). The total cost paid, including commissions and fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased and the excess of \$1.6 million (March 31, 2018 - \$8.4 million) was charged to the deficit for the period.

DIVIDENDS

During the three month period ended March 31, 2019, PrairieSky declared dividends of \$45.6 million (March 31, 2018 - \$44.7 million) or \$0.1950 per common share (March 31, 2018 - \$0.1900) and paid dividends of \$45.6 million (March 31, 2018 - \$44.2 million) or \$0.1950 per common share (March 31, 2018 - \$0.1875).

On February 11, 2019, the Company confirmed its annual dividend of \$0.78 per common share per annum. On March 7, 2019, the Board of Directors declared a dividend of \$0.065 per common share or \$15.2 million payable on April 15, 2019 to common shareholders of record on March 29, 2019.

NET EARNINGS PER COMMON SHARE

The following table presents the computation of net earnings per common share:

| | Three months ended March 31 | |
|--|-----------------------------|---------|
| | 2019 | 2018 |
| Net Earnings | \$ 26.4 | \$ 19.8 |
| Number of Common Shares: | | |
| Weighted Average Common Shares Outstanding - Basic | 234.0 | 235.7 |
| Effect of Dilutive Securities | 0.2 | 0.4 |
| Weighted Average Common Shares Outstanding - Diluted | 234.2 | 236.1 |
| Net Earnings per Common Share - Basic and Diluted | \$ 0.11 | \$ 0.08 |

11. SHARE-BASED COMPENSATION PLANS

The Company has a number of share-based compensation arrangements under which the Company awards various types of long-term incentive grants to eligible employees, officers and directors. They include stock options, performance share units ("PSUs"), restricted share units ("RSUs"), and deferred share units ("DSUs").

The Company accounts for stock options granted to Company employees and officers as equity-settled share-based payment transactions and accrues compensation costs over the vesting period based on the fair values determined at the grant date.

The Company accounts for its share unit awards, PSUs, RSUs and DSUs, held by Company employees, officers and directors as cash-settled share-based payment transactions and accrues compensation costs and dividends over the vesting period based on the fair value at each reporting date. The Company may make an election to settle vested share unit awards with either a cash payment equal to the five-day weighted average trading price for the common shares multiplied by the number of common shares or issue the number of common shares. PSUs vest following the completion of a three-year performance period provided the officer remains actively employed with the Company on the vesting date. RSUs vest evenly over a three-year period, provided the employee remains actively employed with the Company on the vesting date. DSUs are fully vested as of the grant date.

The Company has recognized the following share-based compensation costs:

| | Three months ended March 31 | |
|--|------------------------------------|-----------------|
| | 2019 | 2018 |
| Compensation costs of transactions classified as equity-settled | \$ 0.4 | \$ 0.5 |
| Compensation costs (recovery) of transactions classified as cash-settled | 0.9 | (0.9) |
| Total share-based compensation expense (recovery) | \$ 1.3 | \$ (0.4) |

The Company has recognized the following liability for share-based payment transactions:

| | As at March 31, 2019 | As at December 31, 2018 |
|---|---------------------------------|------------------------------------|
| Liability for unvested cash-settled plans | \$ 0.9 | \$ 3.0 |
| Liability for vested cash-settled plans | 2.8 | 2.0 |
| Liability for cash-settled plans | \$ 3.7 | \$ 5.0 |

As at March 31, 2019, \$3.3 million (December 31, 2018 - \$3.9 million) of the liability for cash-settled plans, which represents the value of the PSUs, RSUs and DSUs that are vested or will vest in the next twelve months, is included in accounts payable and accrued liabilities. The liability for vested cash-settled DSUs of \$2.8 million (December 31, 2018 - \$2.0 million) included in accounts payable and accrued liabilities may or may not be paid in the next twelve months as it only becomes payable when a director is no longer a member of the Board. The remaining \$0.4 million (December 31, 2018 - \$1.1 million) is a long-term liability and is reported as share-based compensation payable.

STOCK OPTIONS

The Company has a Stock Option Plan that provides for granting of stock options to officers and certain employees. Stock options vest over a three-year period and expire five years after the date of the grant.

The following table summarizes the change in stock options outstanding:

| | Number (thousands) | Weighted average exercise price (\$) |
|--|-----------------------|---|
| Issued and Outstanding, December 31, 2017 | 757.0 | 29.28 |
| Granted | 279.7 | 32.06 |
| Exercised | (4.8) | (22.55) |
| Forfeited | (33.7) | (29.39) |
| Issued and Outstanding, December 31, 2018 | 998.2 | 30.09 |
| Granted | 564.3 | 17.67 |
| Issued and Outstanding, March 31, 2019 | 1,562.5 | 25.08 |

The weighted average share price on the dates options were exercised was \$32.03 during the first quarter of 2018. There were no exercises in the first quarter of 2019.

The following assumptions were used to determine the fair value of stock options granted by the Company during the period:

| | March 31, 2019 | March 31, 2018 |
|---|----------------|----------------|
| Risk free interest rate | 1.91% | 1.89% |
| Dividend yield | 4.41% | 2.34% |
| Expected volatility rate based on historical volatility | 33% | 34% |
| Forfeiture rate | 6.4% | 6.4% |
| Expected life | 5 years | 5 years |
| Weighted average grant price | \$17.67 | \$32.06 |
| Fair value per option on grant date | \$3.41 | \$8.11 |

The following table summarizes information regarding stock options outstanding at March 31, 2019:

| Range Of Exercise Prices Per Common Share | Number of options outstanding | Weighted average remaining life (years) | Weighted average exercise price for options outstanding (\$/share) | Number of options exercisable | Weighted average exercise price for options exercisable (\$/share) | Weighted average fair value for options outstanding (\$/share) |
|--|-------------------------------------|--|--|-------------------------------------|--|--|
| \$17.67-\$25.90 | 843,617 | 3.76 | 19.43 | 279,301 | 22.98 | 3.53 |
| \$30.80-\$32.06 | 718,900 | 2.67 | 31.71 | 425,245 | 31.48 | 6.90 |

The following table summarizes information regarding stock options outstanding at December 31, 2018:

| Range Of Exercise Prices Per Common Share | Number of options outstanding | Weighted average remaining life (years) | Weighted average exercise price for options outstanding (\$/share) | Number of options exercisable | Weighted average exercise price for options exercisable (\$/share) | Weighted average fair value for options outstanding (\$/share) |
|--|-------------------------------------|--|--|-------------------------------------|--|--|
| \$22.50-\$25.90 | 279,301 | 1.99 | 22.98 | 152,068 | 22.33 | 3.78 |
| \$30.80-\$32.06 | 718,900 | 2.92 | 31.71 | 267,493 | 31.15 | 6.90 |

For the three month period ended March 31, 2019, administrative expense includes \$0.4 million (March 31, 2018 - \$0.5 million) of compensation costs related to stock options.

PERFORMANCE SHARE UNITS

PSUs have been granted to officers and entitle the officer to receive upon vesting a cash payment that is equal to the value of one common share of the Company for each PSU held, plus accrued dividends over the period from the date of grant to vesting, or the equivalent number of shares at the election of the Company.

The ultimate value of the PSUs will depend upon the Company's performance relative to predetermined corresponding performance targets measured over a three-year period. Performance is based on the Company's total shareholder return ("TSR"), defined as share price appreciation plus dividends, relative to the TSR for a predetermined performance peer group. For the 2019 PSU grant, the Board has adopted a multiple performance criteria methodology, including TSR, for measuring the payout multiplier upon vesting of the PSUs. Based on this assessment, a range of zero to two times the original PSU grant, at the discretion of the Board of Directors, may be eligible to vest in respect of the three-year trailing period being measured.

The following table summarizes information related to the PSUs:

| <i>Outstanding PSUs (thousands of units)</i> | As at March 31, 2019 | As at December 31, 2018 |
|--|---------------------------------|------------------------------------|
| Issued and Outstanding, Beginning of Period | 337.0 | 283.0 |
| Granted | 240.2 | 126.6 |
| Vested | (84.5) | (80.6) |
| Forfeited | - | (3.4) |
| Units, in lieu of dividends | 5.2 | 11.4 |
| Issued and Outstanding, End of Period | 497.9 | 337.0 |

For the three month period ended March 31, 2019, the Company recorded a compensation recovery of \$0.4 million (March 31, 2018 - \$1.4 million) related to outstanding PSUs. The market common share price used in the PSU fair value calculation at March 31, 2019 was the closing price on the TSX of \$18.00 (March 31, 2018 - \$28.17). The remaining weighted average life is 2.0 years.

RESTRICTED SHARE UNITS

RSUs have been granted to eligible employees and entitle the employee to receive upon vesting a cash payment that is equal to the value of one common share for each RSU held, plus accrued dividends over the period from the date of grant to vesting, or the equivalent number of shares at the election of the Company.

The following table summarizes information related to the RSUs:

| <i>Outstanding RSUs (thousands of units)</i> | As at March 31, 2019 | As at December 31, 2018 |
|--|---------------------------------|------------------------------------|
| Issued and Outstanding, Beginning of Period | 98.1 | 140.7 |
| Granted | 76.5 | 46.9 |
| Vested | (57.5) | (80.3) |
| Forfeited | (0.7) | (12.1) |
| Units, in lieu of dividends | 1.2 | 2.9 |
| Issued and Outstanding, End of Period | 117.6 | 98.1 |

For the three month period ended March 31, 2019, the Company recorded compensation costs of \$0.5 million (March 31, 2018 - \$0.3 million) related to outstanding RSUs. The market common share price used in the RSU fair value calculation at March 31, 2019 was the closing price on the TSX of \$18.00 (March 31, 2018 - \$28.17). The remaining weighted average life is 1.5 years.

DEFERRED SHARE UNITS

Directors receive an annual compensation amount in DSUs and have the option to receive Board and Committee retainers and fees in the form of DSUs, which vest immediately. These DSUs are equivalent to a common share plus accrued dividends over the period from date of grant and vesting to the date of redemption and are settled in cash. DSUs can only be redeemed following departure from the Company and must be redeemed prior to December 15th of the year following departure. For the three month period ended March 31, 2019, the majority of the Directors elected to receive their annual Board and Committee retainers and fees in the form of DSUs.

The following table summarizes information related to the DSUs:

| <i>Outstanding DSUs (thousands of units)</i> | As at March 31, 2019 | As at December 31, 2018 |
|--|---------------------------------|------------------------------------|
| Issued and Outstanding, Beginning of Period | 116.2 | 89.1 |
| Granted | 42.6 | 23.2 |
| Units, in lieu of dividends | 1.7 | 3.9 |
| Issued and Outstanding, End of Period | 160.5 | 116.2 |

For the three month period ended March 31, 2019, the Company recorded compensation costs of \$0.8 million (March 31, 2018 - \$0.2 million) related to outstanding DSUs. The market common share price used in the DSU fair value calculation at March 31, 2019 was the closing price on the TSX of \$18.00 (March 31, 2018 - \$28.17).

12. REVENUES

The Company's royalty production revenue is determined pursuant to the terms of its royalty agreements. The transaction price for crude oil, NGL and natural gas is based on the commodity price in the month of production, adjusted for quality, location, allowable deductions, if any, or other factors. Commodity prices are based on market indices that are determined on a monthly or daily basis.

Royalty production revenue is generally received two months after the crude oil, NGL, and natural gas are produced. For royalty production volumes taken-in-kind, revenue is typically collected on the 25th day of the month following production. Lease rental revenue for the entire primary term is recorded when the lease is executed. Lease rental revenue for any subsequent period is recorded as due which is generally annually on the anniversary of the lease extension. Both the amount and timing of bonus consideration revenue can vary significantly from period to period as it is recorded when a new lease is executed and relates to the unique circumstances of each lease transaction.

| Royalty Production Revenue by Product | Three months ended March 31 | |
|--|------------------------------------|----------------|
| | 2019 | 2018 |
| Crude Oil | \$ 46.3 | \$ 44.3 |
| NGL | 9.1 | 9.2 |
| Natural Gas | 11.1 | 10.6 |
| | 66.5 | 64.1 |
| Other Revenue | | |
| Lease Rental Income | \$ 2.3 | \$ 2.6 |
| Bonus Consideration | 2.0 | 1.1 |
| Other Income | 2.4 | 0.1 |
| | 6.7 | 3.8 |
| Total Revenues | \$ 73.2 | \$ 67.9 |

| Revenues by Classification | Three months ended March 31 | |
|-----------------------------------|------------------------------------|----------------|
| | 2019 | 2018 |
| Lessor Interests on Fee Lands | \$ 45.7 | \$ 47.1 |
| GORR Interests | 20.8 | 17.0 |
| Royalty Production Revenue | 66.5 | 64.1 |
| Other Revenue | 6.7 | 3.8 |
| Total Revenues | \$ 73.2 | \$ 67.9 |

At March 31, 2019, receivables from contracts with customers, which are included in accounts receivable and accrued revenue, were \$38.4 million (December 31, 2018 - \$15.2 million). For the three month period ended March 31, 2019, the Company recorded \$6.0 million (March 31, 2018 - \$4.9 million) of revenue relating to prior periods. The performance obligations for these prior period adjustments were satisfied in production periods prior to the current year.

13. ADMINISTRATIVE EXPENSES

| | Three months ended March 31 | |
|--|------------------------------------|---------------|
| | 2019 | 2018 |
| Salaries and benefits | \$ 3.4 | \$ 3.6 |
| Share-based compensation (recovery) <i>(Note 11)</i> | 1.3 | (0.4) |
| Office expense | 0.6 | 1.0 |
| Public company expense | 0.7 | 0.7 |
| Information technology and other | 0.7 | 0.5 |
| Administrative expenses | \$ 6.7 | \$ 5.4 |

14. INCOME TAXES

| | Three months ended March 31 | |
|---------------------------|------------------------------------|---------------|
| | 2019 | 2018 |
| Current tax expense | \$ 6.0 | \$ 4.8 |
| Deferred tax expense | 0.7 | 1.1 |
| Income tax expense | \$ 6.7 | \$ 5.9 |

15. CAPITAL MANAGEMENT

The Company's objective when managing its capital structure is to maintain financial flexibility in order to distribute cash to shareholders in the form of dividends and share repurchases and cancellations after consideration of the Company's financial requirements for its business and future growth opportunities. As

a royalty company, PrairieSky does not have capital expenditure commitments, which enhances its financial flexibility.

The Company's capital structure is comprised of shareholders' equity and working capital. The Company's capital structure is managed by taking into account operating activities, dividends paid to shareholders, common share repurchases, taxes, available Credit Facility (Note 7), and other factors. The Company's operating results and capital structure are impacted by the level of development activity by third parties on the Royalty Properties and the resultant royalty production volumes, level of costs incurred by the Company and commodity prices.

| | As at March 31, 2019 | As at December 31, 2018 |
|------------------------------|-------------------------|----------------------------|
| Shareholders' equity | \$ 2,548.5 | \$ 2,573.6 |
| Working capital (deficiency) | (6.2) | (10.4) |

The Company's capital structure is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of production, crude oil, natural gas and NGL prices, production and mineral tax expense, administrative expenses and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, production expectations and other factors that in the Company's view could impact cash flow. At March 31, 2019, the Company had a working capital deficiency of \$6.2 million, down from December 31, 2018, as a result of improved commodity prices. Crude oil pricing was positively impacted by narrower Canadian heavy and light oil differentials to WTI and extreme cold weather generated higher natural gas prices.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of accounts receivable and accrued revenue, accounts payable and accrued liabilities, dividends payable and the lease obligation approximate their carrying amount due to the short-term maturity of those instruments. Bank debt bears interest at a floating market rate with applicable variable margins, and accordingly the fair market value approximates the carrying amount.

RISKS ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

The Company is exposed to financial risks arising from its financial assets and liabilities. Financial risks include market risk (such as commodity price and interest rate risk), credit risk and liquidity risk.

Commodity Price Risk

Commodity price risk is the risk the Company will encounter fluctuations in its future royalty revenue with changes in commodity prices. Commodity prices for crude oil, NGL and natural gas are influenced by global and regional factors, including levels of supply and demand, weather and geopolitical factors. The Company does not hedge its commodity price risk.

Interest Rate Risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities.

Bank debt bears interest at a floating market rate with applicable variable margins.

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. A substantial portion of the Company's accounts receivable are from royalty agreements with crude oil and natural gas industry operators and are subject to normal industry credit risks. The Company's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables. In addition, the Company takes certain of its production in-kind to mitigate credit risk.

As at March 31, 2019, there was one counterparty whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance. The maximum credit risk exposure associated with accounts receivable and accrued revenue is the total carrying value. As at March 31, 2019, the Company has provided an allowance for doubtful accounts of \$1.0 million (March 31, 2018 - \$1.1 million) calculated using a lifetime expected credit loss assessment for specifically identifiable customer balances which are assessed to be impaired.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting a demand to fund financial liabilities as they come due. The Company manages its liquidity risk using cash and debt management programs. The Company has unused capacity under its Credit Facility, described below, for up to \$208.4 million.

The timing of expected cash outflows relating to bank debt of \$16.6 million, accounts payable and accrued liabilities of \$22.0 million, income tax payable of \$2.0 million and dividend payable of \$15.2 million is less than one year. Included in accounts payable and accrued liabilities is \$2.8 million related to vested cash settled DSUs which may or may not be paid in the next year. Management maintains a conservative approach to debt management that aims to provide financial flexibility with respect to acquisitions and the dividend rate. The Board of Directors reviews and determines the dividend rate annually after considering expected commodity prices, foreign exchange rates, economic conditions, production volumes, income taxes, and PrairieSky's capacity to fund operating expenses and investing opportunities.

17. SUPPLEMENTARY INFORMATION

NET CHANGE IN NON-CASH WORKING CAPITAL

| | Three months ended March 31 | |
|--|-----------------------------|----------|
| | 2019 | 2018 |
| Source (use) of cash: | | |
| Accounts receivable and accrued revenue | \$ (33.1) | \$ (8.1) |
| Prepays | 0.1 | 0.1 |
| Accounts payable and accrued liabilities | 12.0 | 14.0 |
| Income tax payable | 6.0 | (10.0) |
| Changes in non-cash working capital | \$ (15.0) | \$ (4.0) |
| Related to operating activities | (15.6) | (4.0) |
| Related to financing activities | 0.6 | - |
| Changes in non-cash working capital | \$ (15.0) | \$ (4.0) |

SUPPLEMENTARY CASH FLOW INFORMATION

| | Three months ended March 31 | |
|-------------------|-----------------------------|---------|
| | 2019 | 2018 |
| Taxes Paid | \$ - | \$ 14.8 |
| Interest Paid | 0.3 | - |
| Interest Received | - | 0.2 |

CORPORATE INFORMATION

BOARD OF DIRECTORS

James M. Estey⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾
Andrew M. Phillips
Margaret A. McKenzie⁽³⁾⁽⁴⁾
Myron Stadnyk⁽²⁾⁽⁴⁾
Sheldon B. Steeves⁽²⁾⁽³⁾⁽⁴⁾
Grant Zawalsky⁽²⁾⁽⁴⁾

- (1) Chair of the Board.
- (2) Member of the Governance and Compensation Committee. Mr. Estey is the Chair of the Governance and Compensation Committee.
- (3) Member of the Audit Committee. Ms. McKenzie is the Chair of the Audit Committee.
- (4) Member of the Reserves Committee. Mr. Steeves is the Chair of the Reserves Committee. Mr. Estey is an ex-officio non-voting member of the Reserves Committee.

OFFICERS

Andrew M. Phillips, President & Chief Executive Officer
Cameron M. Proctor, Chief Operating Officer
Pamela Kazeil, Vice President, Finance & Chief Financial Officer

AUDITORS

KPMG LLP

BANKERS

Toronto-Dominion Bank
Canadian Imperial Bank of Commerce

TORONTO STOCK EXCHANGE TRADING SYMBOL

PSK

INDEPENDENT RESERVE EVALUATORS

GLJ Petroleum Consultants Ltd.

TRANSFER AGENT

TSX Trust Company

ABBREVIATIONS

bbls – barrels
bbls/d – barrels per day
boe – barrels of oil equivalent (6 mcf = 1 bbl)
boe/d – barrels of oil equivalent per day
mcf – thousand cubic feet
mcf/d – thousand cubic feet per day
mmcf – million cubic feet
mmcf/d – million cubic feet per day
NGL – natural gas liquids
WTI – West Texas Intermediate

CORPORATE OFFICE

Suite 1700 - 350 7 Avenue S.W.
Calgary, AB T2P 3N9

CONTACT US

Phone: 587.293.4000
Fax: 587.293.4001
Investor.relations@prairiesky.com