

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED
MARCH 31, 2020



HIGH MARGINS
ZERO CAPITAL

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements as at and for the three month periods ended March 31, 2020 and 2019 ("interim condensed consolidated financial statements") and the audited consolidated financial statements and related notes as at and for the years ended December 31, 2019 and 2018. This MD&A has been prepared as of April 20, 2020.

The unaudited interim condensed consolidated financial statements and comparative information have been prepared in Canadian dollars and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). PrairieSky receives royalty income on production; as such, the production volumes are equivalent on a gross and net basis.

Certain measures in this document do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by PrairieSky to provide potential investors with additional information regarding the Company's liquidity and its ability to generate funds to conduct its business. Non-GAAP measures include Operating Netback, Operating Netback per BOE, Cash Administrative Expenses, and Cash Administrative Expenses per BOE. Further information can be found in the Non-GAAP Measures section of this MD&A.

The following volumetric measures may be abbreviated throughout this MD&A: barrel ("bbl") per day ("bbls/d"), barrel of oil equivalent ("BOE") per day ("BOE/d"), thousand cubic feet ("Mcf"), and million cubic feet ("MMcf") per day ("MMcf/d"). BOE is an industry measurement to summarize the amount of energy equivalent found in a barrel of crude oil. See the discussion on energy conversions in the Advisory section of this MD&A for further explanation.

Readers should also read the Advisory section located at the end of this MD&A, which provides information on Forward-Looking Statements, oil, natural gas and natural gas liquids ("NGL") conversions, currency and references to PrairieSky.

FINANCIAL AND OPERATIONAL RESULTS

(millions, except per share or as otherwise noted)	Three months ended March 31	
	2020	2019
FINANCIAL		
Revenues	\$ 52.7	\$ 73.2
Funds from Operations	46.5	57.8
Per Share - basic and diluted ⁽¹⁾	0.20	0.25
Net Earnings and Comprehensive Income	8.6	26.4
Per Share - basic and diluted ⁽¹⁾	0.04	0.11
Dividends declared ⁽²⁾	45.4	45.6
Per Share	0.1950	0.1950
Acquisitions, including non-cash consideration	0.5	1.6
Working Capital (Deficiency) at period end	(5.2)	(6.2)
Shares outstanding		
Shares outstanding at period end	232.6	233.9
Weighted average - basic	233.0	234.0
Weighted average - diluted	233.4	234.2
OPERATIONAL		
Royalty Production Volumes		
Crude Oil (bbls/d)	8,582	8,904
NGL (bbls/d)	2,945	2,586
Natural Gas (MMcf/d)	63.8	63.1
Royalty Production (BOE/d) ⁽³⁾	22,160	22,007
Realized Pricing		
Crude Oil (\$/bbl)	42.30	57.75
NGL (\$/bbl)	26.10	39.00
Natural Gas (\$/Mcf)	1.57	1.97
Total (\$/BOE) ⁽³⁾	24.35	33.58
Operating Netback per BOE⁽⁴⁾	\$ 21.48	\$ 29.49
Funds from Operations per BOE	\$ 23.06	\$ 29.18
Oil Price Benchmarks		
West Texas Intermediate (WTI) (US\$/bbl)	46.17	54.90
Edmonton Light Sweet (\$/bbl)	51.44	66.53
Western Canadian Select (WCS) crude oil differential to WTI (US\$/bbl)	(20.53)	(12.28)
Natural Gas Price Benchmark		
AECO monthly index (\$/Mcf)	2.14	1.94
AECO daily index (\$/Mcf)	2.03	2.62
Foreign Exchange Rate (US\$/CAD\$)	0.7450	0.7535

(1) Net Earnings and Comprehensive Income and Funds from Operations per Share are calculated using the weighted average number of common shares outstanding.

(2) A dividend of \$0.065 per common share was declared on March 16, 2020. The dividend was paid on April 15, 2020 to shareholders of record as at March 31, 2020.

(3) See "Conversions of Natural Gas to BOE".

(4) Operating Netback per BOE is defined under the Non-GAAP Measures section in this MD&A.

RESULTS OVERVIEW

HIGHLIGHTS

Highlights of PrairieSky's financial results for the three-month period ended March 31, 2020 ("Q1 2020") include:

- Revenues totaled \$52.7 million, consisting of \$49.1 million of royalty production revenue, \$0.7 million of lease rental income, \$2.4 million of bonus consideration and \$0.5 million of other income.
- Funds from operations totaled \$46.5 million (\$0.20 per share basic and diluted).
- Royalty production averaged 22,160 BOE per day (52% liquids) consisting of average crude oil royalty production volumes of 8,582 bbls per day, average NGL royalty production volumes of 2,945 bbls per day and average natural gas royalty production volumes of 63.8 MMcf per day.
- Dividends declared of \$45.4 million (\$0.1950 per share).
- Purchased for cancellation 0.5 million common shares at a weighted average price of \$11.41 per common share for total consideration of \$5.0 million under the normal course issuer bid ("NCIB").

BUSINESS OVERVIEW

PRAIRIESKY ROYALTY

PrairieSky's asset base includes a geologically and geographically diverse portfolio of Fee Lands (as defined herein) that encompasses approximately 7.8 million acres with petroleum and/or natural gas rights and approximately 7.8 million acres of GORR Lands (as defined herein) and other acreage (collectively, the "Royalty Properties").

The Royalty Properties are comprised of: (i) fee simple mineral title in lands prospective for petroleum, natural gas, NGL and certain other minerals located predominantly in central and southern Alberta and western Saskatchewan (the "Fee Lands"); (ii) lessor interests in and to leases that are currently issued in respect of certain Fee Lands ("Lessor Interests"); and (iii) overriding royalty interests ("GORR Interests") on lands ("GORR Lands") across Western Canada.

PrairieSky is focused on encouraging third parties to actively develop the Royalty Properties and growing our royalty ownership by strategically seeking additional petroleum and natural gas royalty assets that provide PrairieSky 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 Royalty Properties provides the Company with royalty production revenues as petroleum and natural gas are produced from such properties. PrairieSky carries on business in the provinces of Alberta, Saskatchewan, British Columbia and Manitoba.

PrairieSky's operations include royalty income earned through crude oil, NGL and natural gas produced on the Royalty Properties. The Company's royalty production revenues are derived from: (i) the Lessor Interests that are leased out by the Company and upon which lessees pay lessor royalties, and (ii) GORR Interests on GORR Lands.

PrairieSky receives royalty production revenue from approximately 38,000 wells and receives payments from approximately 330 different industry payors. The Company receives approximately 75% of its monthly revenue from 30 payors. Royalties are calculated on a fixed percentage, step or sliding scale formula. Some royalty agreements allow for the deduction of certain costs. The average royalty rate for Q1 2020 was approximately 6.0%.

Petroleum and natural gas royalty structures are typically linked directly to production volumes from the lands, with certain royalty structures linked to production volumes and/or price. As a result, the Company's net earnings can be significantly impacted by fluctuations in commodity prices and production volumes. Production volumes

can be influenced by various factors, including the extent of exploration and development activity by third parties on the Royalty Properties, the timing and amount of capital expenditures and field operations, and the expertise and financial resources of third-party lessees. Commodity pricing is influenced by market supply and demand as well as other factors such as weather, quality of product, access to markets, foreign currency fluctuations, and geopolitical risk. The Company is able to mitigate some of these risks to the extent that there are a multitude of third parties actively exploring and developing the Royalty Properties and the production of natural gas, crude oil, and NGL is diversified.

As a royalty owner, PrairieSky does not bear the operational risks typically associated with the upstream petroleum and natural gas exploration and production business. The Company does not bear the operational or financial risks of drilling, completing or operating wells and related infrastructure. The Company is not responsible for site restoration and abandonment costs. Capital, operational and abandonment costs are the responsibility of the third parties conducting operations on the Royalty Properties. Substantially all the capital expenditures made by PrairieSky are discretionary.

Costs incurred by the Company are primarily production and mineral taxes, administrative expenses and corporate income taxes. Administrative expenses include lease administration costs such as land title management, contract administration, technical evaluation, negotiations and compliance costs to secure mineral rights and ensure accurate royalty revenue receipts.

Management's discussion and analysis for this reporting period focuses on the three months ended March 31, 2020.

PRAIRIESKY'S 2020 OUTLOOK

Management does not provide guidance. As such, this discussion relates only to general economic conditions experienced by the Company as of the date of this MD&A. The Canadian petroleum and natural gas industry has been significantly impacted by unprecedented global market volatility. The novel coronavirus (COVID-19) has been declared a pandemic by the World Health Organization and governments at all levels in Canada and around the world are taking stringent steps to contain the spread of the virus. These actions have resulted in significant disruption to global economic activity, including a dramatic decrease in crude oil demand. In addition, global crude oil is in over supply which has contributed to the lack of market equilibrium and, as a result, commencing in March 2020, the Company experienced a significant decrease in benchmark crude oil pricing and wider Canadian light and heavy oil differentials. Canadian oil and gas operators have responded to these market disruptions announcing decreases to previously released 2020 capital budgets and spending, and many are in the process of shutting in or reducing current production which will negatively impact oil production across Western Canada. Large scale shut ins of larger oil sands projects in Western Canada may also impact demand for, and consumption of natural gas and condensate. Natural gas pricing has remained relatively stable but the reduction to benchmark oil pricing has reduced the economics of liquids-rich natural gas plays which will negatively impact activity on these plays.

PrairieSky remains confident in its strategy and business model which provides robust operating margins in all commodity cycles. Management continues to deploy its risk mitigating strategies including proactive monitoring of economic conditions, a constant and proactive compliance and collections program, paying close attention to controllable costs and a disciplined approach to acquisitions. PrairieSky consistently maintains a strong balance sheet and employs a conservative capital structure.

Management continues to monitor current commodity prices, currency exchange rates, industry activity levels and third-party guidance for anticipated capital expenditures during 2020 and beyond. Given PrairieSky has no operational control over capital expenditures on its lands, it is difficult to predict activity levels and the timing thereof with a high degree of certainty.

PrairieSky's diversity in crude oil and natural gas plays and payors, along with an active royalty compliance program, assists in reducing collection and credit risk. The Company takes certain royalty production volumes in-kind which, in conjunction with the above processes, further assists in managing collection and credit risk.

PRAIRIESKY'S STRATEGY

The Company's objective is to generate significant cash flow and growth for shareholders through indirect crude oil and natural gas investment at relatively low risk and low cost to the Company. The Company seeks to achieve this objective by: (i) focusing on leasing activity and organic growth of royalty production revenue from the Royalty Properties; (ii) proactively monitoring and managing the portfolio of Royalty Properties to ensure third-party adherence to lease terms and contractual provisions (including offset well obligations); (iii) managing controllable costs; and (iv) selectively pursuing strategic business development opportunities that are relatively low risk to the Company and accretive to shareholders. The Company intends to distribute the majority of cash flow in the form of dividends and share repurchases and cancellations over time.

ROYALTY PRODUCTION

ROYALTY PRODUCTION VOLUMES

(Average daily)	Three months ended March 31	
	2020	2019
Crude Oil (bbls/d)	8,582	8,904
NGL (bbls/d)	2,945	2,586
Natural Gas (MMcf/d)	63.8	63.1
Total Royalty Production (BOE/d)	22,160	22,007

PrairieSky's average daily royalty production volumes for Q1 2020 were 39% crude oil, 13% NGL and 48% natural gas as compared to the three-month period ended March 31, 2019 ("Q1 2019") when the production volume split was 40% crude oil, 12% NGL and 48% natural gas. There is a natural delay between the timing of production and when PrairieSky receives its royalty interest production volumes and revenue from operators. Due to this delay, positive and negative adjustments related to prior periods may be included in PrairieSky's royalty production volumes and/or revenue. PrairieSky's compliance department continually reviews leasing agreements and royalty calculations and collections related to compliance recoveries result in adjustments to royalty production volumes and royalty revenue related to prior periods. Compliance adjustments are not recorded in the financial statements until collection is certain.

PrairieSky's crude oil, NGL and natural gas production volumes are primarily marketed with lessees' production. The Company actively reviews its counterparties and takes certain royalty volumes in-kind to mitigate credit risk, as appropriate. PrairieSky is exposed to commodity price volatility. The Company has no commodity price hedges in place and does not currently intend to enter into any commodity price hedges.

For the three months ended March 31, 2020

Crude oil royalty production volumes for Q1 2020 of 8,582 bbls per day have decreased 4% from 8,904 bbls per day reported in Q1 2019 as volumes from incremental wells on stream did not offset natural declines due to a reduction in overall drilling and workover activity across Western Canada.

NGL royalty production volumes for Q1 2020 of 2,945 bbls per day have increased 14% from 2,586 bbls per day reported in Q1 2019 as production from incremental new wells offset natural declines. NGL production increased due to increased yields from liquids rich natural gas production.

Natural gas royalty production volumes for Q1 2020 of 63.8 MMcf per day were 1% higher than the 63.1 MMcf per day reported in Q1 2019 as Q1 2020 included additional positive volume adjustments from prior periods that were not recorded in Q1 2019. There has been limited drilling and workover activity across Western Canada due to challenging natural gas pricing.

FINANCIAL RESULTS

OPERATING RESULTS

	Three months ended March 31, 2020		Three months ended March 31, 2019	
	(\$ millions)	(\$/BOE) ⁽²⁾	(\$ millions)	(\$/BOE) ⁽²⁾
Royalty Production Revenue	\$ 49.1	\$ 24.35	\$ 66.5	\$ 33.58
Administrative Expenses	(4.5)	(2.23)	(6.7)	(3.38)
Production and Mineral Taxes	(1.3)	(0.64)	(1.4)	(0.71)
Operating Netback⁽¹⁾	\$ 43.3	\$ 21.48	\$ 58.4	\$ 29.49

(1) Non-GAAP measure. See "Non-GAAP Measures" in this MD&A.

(2) See "Conversions of Natural Gas to BOE".

The Q1 2020 operating netback of \$43.3 million (\$21.48 per BOE) has decreased 26% from \$58.4 million (\$29.49 per BOE) in Q1 2019 primarily as a result of decreases in realized commodity pricing offsetting slightly higher total average production volumes. Changes in administrative expenses and production and mineral taxes are further discussed below.

REVENUES

(\$ millions)	Three months ended March 31	
	2020	2019
Royalty Production Revenue by Product		
Crude Oil	\$ 33.0	\$ 46.3
NGL	7.0	9.1
Natural Gas	9.1	11.1
	49.1	66.5
Other Revenue		
Lease Rental Income	\$ 0.7	\$ 2.3
Bonus Consideration	2.4	2.0
Other Income	0.5	2.4
	3.6	6.7
Total Revenue	\$ 52.7	\$ 73.2

(\$ millions)	Three months ended March 31	
	2020	2019
Revenues by Classification		
Lessor Interests on Fee Lands	\$ 30.2	\$ 45.7
GORR Interests	18.9	20.8
Royalty Production Revenue	49.1	66.5
Other Revenue	3.6	6.7
Total Revenue	\$ 52.7	\$ 73.2

	Three months ended March 31	
	2020	2019
Pricing		
Benchmark		
WTI (US\$/bbl)	46.17	54.90
Edmonton Light Sweet (\$/bbl)	51.44	66.53
WCS Differential to WTI (US\$/bbl)	(20.53)	(12.28)
AECO Monthly Index (\$/Mcf)	2.14	1.94
AECO Daily Index (\$/Mcf)	2.03	2.62
Foreign Exchange Rate (US\$/CAD\$)	0.7450	0.7535

Realized Pricing	Three months ended March 31	
	2020	2019
Crude Oil (\$/bbl)	42.30	57.75
NGL (\$/bbl)	26.10	39.00
Natural Gas (\$/Mcf)	1.57	1.97
Total (\$/BOE)	24.35	33.58

The Company's average royalty rate for Q1 2020 and Q1 2019 was approximately 6.0%. During Q1 2020, royalty production revenue was \$49.1 million compared to \$66.5 million for the same period in 2019, a decrease of 26% primarily as a result of lower average realized pricing for all products as discussed below.

During Q1 2020, revenue from Lessor Interests on Fee Lands was \$30.2 million or 62% of total royalty production revenue. Revenue from GORR Interests was \$18.9 million or 38% of total royalty production revenue for the same time period. In the comparative period, \$45.7 million or 69% of royalty production revenue was generated from Lessor Interests on Fee Lands and \$20.8 million or 31% from GORR Interests. The increase in revenue generated from GORR Interests as a percentage of total royalty production revenue is reflective of the impact of revenues from land fund arrangements and increased activity on GORR lands. In addition to royalty revenue from Lessor Interests, all lease rental income and bonus consideration are generated from Fee Lands.

During Q1 2020, the Company averaged realized crude oil pricing of \$42.30 per bbl, NGL pricing of \$26.10 per bbl and natural gas pricing of \$1.57 per Mcf. The realized pricing on all products decreased from Q1 2019 when the Company averaged realized crude oil pricing of \$57.75 per bbl, NGL pricing of \$39.00 and natural gas pricing of \$1.97 per Mcf. Global crude oil demand and supply shocks which have negatively impacted benchmark WTI pricing and resulted in wider differentials for Canadian light and heavy oil differentials. This has resulted in lower realized pricing in Q1 2020 as compared to Q1 2019. Natural gas realized prices decreased as the average of monthly and daily AECO benchmark pricing declined compared to Q1 2019. Realized natural gas prices declined in Q1 2020 as compared to Q1 2019 due to the decrease in the average of monthly and daily AECO benchmark pricing and as a result of prior period adjustments from a lower pricing environment. In addition, in Q1 2019, PrairieSky's natural gas revenue was positively impacted by incremental volumes being sold at daily AECO which averaged \$2.62 per mcf.

Royalty compliance recoveries are the cash payments received as a result of the extensive process of identifying, analyzing, resolving and collecting corrected payments from royalty payors. Cash received from compliance recoveries can cover a number of periods. PrairieSky's compliance department continually reviews leasing agreements and royalty calculations. Compliance adjustments are not recorded in the financial statements until collection is certain. For Q1 2020, the Company collected \$1.8 million (Q1 2019 - \$1.8 million) in compliance recoveries. Compliance recoveries are included in royalty production revenue for the period.

Other revenue consisted primarily of lease rental income and lease bonus consideration from new leasing arrangements as well as leases currently issued in respect of certain Fee Lands. Lease rental income for Q1 2020 of \$0.7 million decreased 70% from \$2.3 million during Q1 2019 due to the timing of lease renewals and different anniversary dates following primary terms. Bonus consideration revenue for Q1 2020 was \$2.4 million (Q1 2019 - \$2.0 million). Both the amount and timing of bonus consideration revenue can vary significantly from quarter to quarter as it relates to the unique circumstances of each transaction. Other income was \$0.5 million for Q1 2020, a decrease from Q1 2019 when the Company received \$2.4 million for the collection of non-performance fees.

ADMINISTRATIVE EXPENSES

(\$ millions)	Three months ended March 31	
	2020	2019
Salaries and Benefits	\$ 3.3	\$ 3.4
Share-Based Compensation (Recovery)	(0.8)	1.3
Office Expense	0.7	0.6
Public Company Expense	0.6	0.7
Information Technology and Other	0.7	0.7
Total Administrative Expenses	\$ 4.5	\$ 6.7
Administrative Expenses per BOE ⁽¹⁾	\$ 2.23	\$ 3.38
Cash Administrative Expenses ⁽²⁾	\$ 7.0	\$ 7.6
Cash Administrative Expenses per BOE ⁽¹⁾⁽²⁾	\$ 3.47	\$ 3.84

(1) See "Conversions of Natural Gas to BOE".

(2) Non-GAAP measure. See "Non-GAAP Measures" in the MD&A.

PrairieSky is committed to cost control, finding efficiencies, and optimizing technology across the business. Administrative expenses for Q1 2020 were \$2.23 per BOE (Q1 2019 - \$3.38 per BOE). Administrative expenses include both cash and non-cash charges which relate to share-based compensation plans. Administrative expenses related to restricted share units ("RSUs"), preferred share units ("PSUs"), officer deferred share units ("ODSUs"), and deferred share units ("DSUs") are impacted by the closing share price at period end and as such, are subject to variability.

Cash administrative expenses for Q1 2020 were \$3.47 per BOE, a 10% decrease from Q1 2019 cash administrative expenses of \$3.84 per BOE primarily as a result of the effect of a decreased share price on the settlement of share-based compensation plans that occurs in the first quarter of each year. Company payouts related to share-based compensation for the entire organization, including executives, during Q1 2020 were \$1.7 million (Q1 2019 - \$2.2 million). When cash share-based payments are made, there is an increase in cash administrative expenses in the period. Cash payments decreased in Q1 2020 compared to Q1 2019 due to lower pricing on the RSU and PSU plans in the current year, as well as a lower performance factor related to the PSUs.

(\$ millions)	Three months ended March 31	
	2020	2019
Share-Based Compensation		
Stock Option Expense	\$ 0.3	\$ 0.4
PSU (Recovery)	(0.3)	(0.4)
RSU Expense (Recovery)	(0.2)	0.5
DSU Expense (Recovery)	(0.7)	0.8
ODSU Expense	0.1	-
Total Share-Based Compensation Expense (Recovery)	\$ (0.8)	\$ 1.3

Share-based compensation expense is impacted by the closing share price at period end. There was a recovery recorded in Q1 2020 as the share price declined between the end of Q4 2019 and Q1 2020.

Total outstanding units and options from all employee, officer, and director incentive plans is 1.0% of total common shares outstanding at March 31, 2020.

PRODUCTION AND MINERAL TAXES

(\$ millions, except per BOE amounts)	Three months ended March 31	
	2020	2019
Production and Mineral Taxes	\$ 1.3	\$ 1.4
\$/BOE ⁽¹⁾	\$ 0.64	\$ 0.71

(1) See "Conversions of Natural Gas to BOE".

Production and mineral taxes are levied on an annual basis on the value of crude oil and natural gas production or amount of acreage from non-Crown lands. For Q1 2020, production and mineral taxes, which includes Alberta Freehold Mineral Tax and Saskatchewan acreage tax, averaged 2.6% of royalty production revenue compared to 2.1% in Q1 2019. Production and mineral taxes are based on an annual estimate which can result in variances from quarter to quarter.

DEPLETION, DEPRECIATION AND AMORTIZATION ("DD&A")

(\$ millions, except per BOE amounts)	Three months ended March 31	
	2020	2019
Depletion, Depreciation and Amortization	\$ 30.0	\$ 31.3
\$/BOE ⁽¹⁾	\$ 14.88	\$ 15.80

(1) See "Conversions of Natural Gas to BOE".

The Company depletes its royalty assets using the unit-of-production method based on the total proved and probable reserves of its Royalty Properties. Corporate assets, including the right-of-use asset associated with the office lease, are depreciated on a straight-line basis. DD&A per BOE is lower in Q1 2020 than the prior year comparative period due to a lower depletable base. DD&A per BOE will fluctuate depending on the royalty assets acquired, if any, the amount of reserves added, and production volumes in the period.

EXPLORATION AND EVALUATION EXPENSE ("E&E")

(\$ millions, except per BOE amounts)	Three months ended March 31	
	2020	2019
Exploration and Evaluation Expense	\$ 2.3	\$ 0.3
\$/BOE ⁽¹⁾	\$ 1.14	\$ 0.15

(1) See "Conversions of Natural Gas to BOE".

During Q1 2020, \$2.3 million (Q1 2019 - \$0.3 million) of costs associated with expired Crown mineral leases and GORR Interests were recognized as an expense. The expense will vary period to period as a result of the timing of lease expiries, if any.

FINANCE

Finance expense of \$0.3 million in Q1 2020 has decreased 25% from \$0.4 million in Q1 2019 as a result of the reduction in short-term bank debt over the corresponding periods.

INCOME TAX

(\$ millions)	Three months ended March 31	
	2020	2019
Current Tax Expense (Recovery)	\$ (2.4)	\$ 6.0
Deferred Tax Expense	8.1	0.7
Income Tax Expense	\$ 5.7	\$ 6.7

The Company's interim income tax expense is determined using the estimated annual effective income tax rate applied to year-to-date net earnings before tax. The Company's effective tax rate differs from PrairieSky's combined Provincial and Federal statutory tax rate of 25.3% primarily as a result of the reversal of the initial difference between the carrying value of net assets transferred and the tax pools acquired on May 27, 2014, for which no deferred tax asset was recognized, partially offset by non-deductible employee-related expenses. In addition, the Company has incorporated the enacted Alberta corporate income tax rate reduction to 10% on January 1, 2020. Further reductions of 1% will be effective for each year commencing January 1, 2021 and 2022 bringing the rate to 8%.

NET EARNINGS

Net earnings for Q1 2020 was \$8.6 million (\$0.04 per share, basic and diluted) compared to \$26.4 million for Q1 2019 (\$0.11 per share, basic and diluted). Net earnings for Q1 2020 was lower than Q1 2019 as a result of the decrease in revenues previously noted.

ACQUISITIONS

During Q1 2020, the Company completed acquisitions totaling \$0.5 million (Q1 2019 - \$1.6 million) comprised of \$0.1 million of royalty assets (Q1 2019 - \$0.1 million) and \$0.4 million (Q1 2019 - \$1.5 million) of E&E assets, consisting of royalty interests on non-producing properties, and undeveloped Crown land.

LIQUIDITY AND CAPITAL RESOURCES

(\$ millions)	Three months ended March 31	
	2020	2019
Net Cash From (Used In)		
Operating Activities	\$ 56.0	\$ 42.2
Investing Activities	(0.5)	(1.6)
Financing Activities	(55.5)	(40.6)
Change in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents, Beginning of Period	\$ -	\$ -
Cash and Cash Equivalents, End of Period	\$ -	\$ -

OPERATING ACTIVITIES

Net cash from operating activities for Q1 2020 was \$56.0 million as compared to \$42.2 million for the comparable periods in 2019. Net cash from operating activities is generated from funds from operations and the net change in non-cash working capital. Funds from operations is utilized by management to evaluate the ability of the Company to generate cash from its operations. This is considered a measure of operating performance as it demonstrates the Company's ability, on an ongoing basis, to fund distributions of cash flow to shareholders as dividends, to repurchase common shares under the Company's NCIB, as well as fund complementary acquisitions. Such a measure provides a useful indicator of the Company's operations, on an ongoing basis, by eliminating certain non-cash charges. Funds from operations in Q1 2020 were \$46.5 million, a 20% decrease from \$57.8 million in Q1 2019 primarily due to a decline in WTI benchmark pricing and widening Canadian light and heavy oil differentials to WTI.

The Company had a working capital deficiency of \$5.2 million at March 31, 2020. The working capital deficiency has increased from \$3.1 million at December 31, 2019 as realized commodity prices for crude oil declined during Q1 2020 reducing accrued revenue as compared to Q4 2019, and the Company increased purchases under its NCIB from \$2.8 million in Q4 2019 to \$5.0 million in Q1 2020 in order to acquire additional shares at a low price. At March 31, 2020, the working capital deficiency includes the gross payable for production and mineral taxes which are billed annually in March for the province of Alberta. There is a corresponding increase in accounts receivable for amounts recoverable from third-party lessees. The working capital deficiency includes \$2.0 million (December 31, 2019 - \$2.7 million) related to the liability for vested cash-settled DSUs for Board members which may or may not be paid in the next twelve months as amounts only become payable when a director is no longer a member of the Board. At March 31, 2020, accounts receivable and accrued revenue consisted primarily of accrued revenue related to royalty payments and production and mineral taxes receivable from third-party operators. In the crude oil and natural gas industry, accounts receivable from industry partners are typically settled in the following month; however, payments to royalty owners are often delayed longer, and as a result, actual payments may differ from estimates recorded. Accounts payable and accrued liabilities consisted primarily of production and mineral taxes payable, share-based compensation and salary-related accruals. At March 31, 2020 income taxes receivable totaled \$3.2 million (December 31, 2019 - \$4.7 million payable).

INVESTING ACTIVITIES

For Q1 2020, cash used in investing activities was \$0.5 million (Q1 2019 - \$1.6 million), respectively, including royalty and E&E asset acquisitions as outlined in the "Acquisitions" section of this MD&A.

FINANCING ACTIVITIES

For Q1 2020, cash used in financing activities was \$55.5 million (Q1 2019 - \$40.6 million). Dividends paid in Q1 2020 were \$45.4 million (Q1 2019 - \$45.6 million). In addition, the Company repurchased \$5.0 million in common shares under the NCIB in Q1 2020 (Q1 2019 - \$6.3 million) as described below.

Since the initial public offering in May 2014 (the "IPO"), PrairieSky has declared \$1,077.4 million in dividends to shareholders. Since inception of the NCIB in 2016, PrairieSky has purchased for cancellation 5.7 million common shares at an average cost of \$24.24 per share for total consideration of \$137.8 million.

Bank Debt

On May 15, 2018, the Company entered into a \$200 million extendible revolving credit facility (the "Revolving Facility"), with a permitted increase to \$250 million, subject to lender consent, and renewed the \$25 million extendible operating credit facility (the "Operating Facility", and together with the Revolving Facility, the "Credit Facility"), with a syndicate of Canadian banks.

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, may be 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, 2020, the Company was compliant with all covenants provided for in the lending agreement.

As at March 31, 2020, the Company had \$2.4 million in bank debt outstanding on the Operating Facility (December 31, 2019 - \$7.3 million). The Revolving Facility remains undrawn. The effective interest rate for Q1 2020 was 4.3% (Q1 2019 - 4.5%).

Dividends and Dividend Policy

PrairieSky pays dividends to shareholders at the discretion of the Board. Dividends declared were \$45.4 million or \$0.1950 per share for Q1 2020.

Due to the unprecedented global market volatility, on March 16, 2020, the Company announced it will move to a quarterly dividend commencing in Q2 2020 with the first quarterly dividend to be declared and paid to holders of record on June 30, 2020. The dividend was adjusted to \$0.24 per common share annually (\$0.06 per common share quarterly) for the balance of 2020.

The Board of Directors determines the dividend rate after considering expected commodity prices, foreign exchange rates, production volumes, economic conditions, income taxes, and PrairieSky's capacity to fund operating expenses and investing opportunities. The dividend rate is established with the intent of absorbing short-term market volatility, including commodity price volatility, over several months. It also recognizes the intention of maintaining a strong financial position to take advantage of business development opportunities.

Outstanding Share Data

As at March 31, 2020, PrairieSky had 232.6 million common shares outstanding (December 31, 2019 - 233.1 million). As at April 20, 2020, there were 232.6 million common shares outstanding.

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 to repurchase shares for cancellation after consideration of the Company's financial requirements for its business and future growth opportunities. As a royalty company, PrairieSky does not incur capital expenditures for crude oil and natural gas development, 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, income taxes, available Credit Facility and other factors. The Company's operating results and capital structure are impacted by the level of leasing and development activity by third parties on the Royalty Properties, commodity prices and the resultant royalty production revenues, as well as the costs incurred by the Company.

Stewardship of the Company's capital structure is managed through its financial and operating forecast process. The Company's forecast of future cash flows is based on estimates of production, crude oil, natural gas and NGL prices, production and mineral tax expense, administrative expenses, income taxes 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, would impact future cash flows. However, in light of the current volatility in commodity prices and uncertainty regarding the timing for recovery in such prices, along with the effect of COVID-19 on global crude oil demand, the preparation of financial forecasts is challenging. As a result, there may be adverse changes in cash flows, working capital or debt levels that are currently unforeseen.

On May 8, 2019 the Company announced the approval of the renewal of its NCIB by the Toronto Stock Exchange ("TSX"). The NCIB allows the Company to purchase for cancellation up to a maximum of 2.7 million common shares over a twelve-month period which commenced on May 13, 2019 and expires no later than May 12, 2020. The Company allocated \$50.0 million to repurchase common shares under the NCIB over the twelve-month period. The Board has authorized the Company to apply to the TSX to extend its NCIB for an additional one-year period. Subject to regulatory approval, the Company intends to apply to repurchase up to a maximum of 11.6 million common shares which represents 5% of the common shares issued and outstanding as of April 20, 2020 over a twelve-month period commencing in May 2020. The actual number of common shares that may be purchased will be determined by the Company based on available funds from operations. Purchases are made on the open market through the TSX or alternative platforms at the market price of such common shares. All common shares purchased under the NCIB are cancelled.

During Q1 2020, the Company purchased for cancellation 0.5 million common shares (Q1 2019 - 0.3 million common shares) at a weighted average price of \$11.41 per common share (Q1 2019 - \$19.07 per common share), including commissions, for total consideration of \$5.0 million (Q1 2019 - \$6.3 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 \$0.2 million (Q1 2019 - \$1.6 million) was charged to the deficit.

RISK MANAGEMENT

FINANCIAL RISKS

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

Commodity Price Risk

Commodity price risk is the risk the Company will encounter fluctuations in future royalty production revenues 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, transportation constraints, weather and geopolitical factors. As a result of the COVID-19 global health crisis, crude oil demand has dropped sharply. At the same time, global participants have increased supply negatively impacting global oil prices and increasing commodity price risk for the Company. The Company has not hedged 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. The Company has minimal interest rate risk as its bank debt is \$2.4 million and it is only drawn on the Operating Facility. The Revolving Facility remains undrawn.

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. The Company's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables. During these unprecedented market challenges as a result of COVID-19 and the resulting decrease in global crude oil demand, collection of accounts receivable from third-party lessees remains a priority for the Company.

The Company maintains a compliance program to ensure royalties are paid correctly on production from the Royalty Properties in accordance with the terms of the agreements. This includes reviewing and analyzing prices obtained by the royalty payor and ensuring that unwarranted or excessive deductions are not being taken.

A substantial portion of the Company's accounts receivable are from leases, overriding royalty contracts and other agreements with crude oil and natural gas industry operators and are subject to normal industry credit risks. The Company's leasing arrangements typically provide for termination of the lease in the event of non-payment of royalties which would result in a return of the petroleum and natural gas rights to the Company. In addition, the Company actively reviews its counterparties and takes its production in-kind to mitigate credit risk as appropriate and has letters of credit in place with certain producers.

As at March 31, 2020, there were no counterparties 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.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties funding its financial liabilities as they come due. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due. At March 31, 2020, the Company had a working capital deficiency of \$5.2 million, an increase from \$3.1 million at December 31, 2019. This increase is primarily a result of decreased accounts receivable and accrued revenue due to declines in WTI benchmark pricing negatively impacting royalty production revenue. The Company also has access to funding alternatives through its \$225 million Credit Facility. In light of the current volatility in commodity prices and uncertainty regarding the timing for recovery in such prices, along with the effect of COVID-19 on global crude oil demand, the preparation of financial forecasts is challenging. As a result, there may be adverse changes in cash flows, working capital or debt levels that are currently unforeseen.

The Company's royalty production volumes and resultant revenues with high operating netbacks provide significant liquidity. The primary uses of funds are acquisitions, administrative expenses, production and mineral taxes, income taxes, dividends, and the repurchase and cancellation of PrairieSky common shares. The Company's dividend, common share repurchases and capital acquisitions are discretionary. The Company has unused capacity under its Credit Facility of up to \$222.6 million.

The timing of expected cash outflows relating to bank debt of \$2.4 million, accounts payable and accrued liabilities of \$22.7 million, and the dividend payable of \$15.1 million is less than one year. Included in accounts payable and accrued liabilities is \$2.0 million related to vested cash-settled DSUs held by Board members which may or may not be paid in the next year as the amount only becomes payable when a director is no longer a member of the Board.

OPERATIONAL AND BUSINESS RISKS

PrairieSky has identified key operational and business risks that may impact financial results. The most significant of these risks are as follows:

- Volatility in commodity prices and quality differentials as a result of global and North American market forces and/or shifts in the balance between supply and demand for crude oil, NGL, and natural gas, including the impacts of COVID-19 on crude oil demand;
- Access to transportation, including pipelines or other methods, for bringing crude oil and natural gas to market;
- Dependence on lessees and/or third-party operators to develop the Royalty Properties and the risks associated with exploration, development and production of crude oil and natural gas, including environmental risks and climate change, as further discussed below;
- Ability of participants in the crude oil and natural gas industry in Western Canada to access capital to develop the Royalty Properties and the industry as a whole;
- Third-party operator activity levels on the Royalty Properties and competition for land, goods and services, qualified personnel and capital funding;
- Variations in currency exchange rates;
- Imprecision of reserve estimates and uncertainty of depletion and recoverability of reserves. The Company's reserves will deplete over time through continued production and our industry partners and royalty payors may not be able to replace the reserves on the Royalty Properties on an economic basis;
- Stock market volatility and the ability to access sufficient capital from internal and external sources;
- Third-party operational risks, including facility restrictions and weather, or marketing risks, including take in-kind production volumes, resulting in delivery interruptions, delays, lower realized pricing and/or unanticipated production declines;
- Changes in government regulations, including mandated production curtailments, taxation, environmental and Crown royalty rates;
- Potential breakdown, invasion, virus, cyber-attack, security breach or destruction of information technology systems; and
- Variability of dividends based on PrairieSky's financial performance and/or market conditions.

The Company employs the following strategies to mitigate these risks:

- Our Royalty Properties are diversified which limits the exposure to any one royalty payor, commodity, area, region or operator;
- We are a royalty interest holder and have no direct exposure to environmental claims and regulation or the associated costs;
- We are focused on controlling direct costs in order to maximize our funds from operations;
- Our royalty interest agreements and contracts provide mechanisms to ensure that our interests are protected;
- Systems and compliance processes are in place to identify and pursue any unpaid or incorrect revenues;
- Measures and processes, which include a recovery plan, are in place to reduce the risk of cyber-attacks to protect our information systems from being breached; and
- We maintain levels of liability insurance that meet or exceed industry standards.

ENVIRONMENTAL RISKS

The Canadian crude oil and natural gas industry is currently subject to environmental regulation under a variety of Canadian federal, provincial, territorial and municipal laws and regulations, all of which are subject to

governmental review and revision from time to time. These regulations are some of the most stringent and progressive in the world. Such regulations provide for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain crude oil and natural gas industry operations, including the abandonment and reclamation of well, facility and pipeline sites. Compliance with such regulations can require significant expenditures by the businesses operating on the Royalty Properties and a breach of such requirements may result in suspension or revocation of necessary licences and authorizations, civil liability and the imposition of material fines and penalties. In addition, compliance with such regulations is required for a third-party to keep a lease on the Fee Lands in good standing. Failure to adhere to applicable regulations and contractual requirements can lead to a default and subsequent termination of a Fee Lands lease by PrairieSky. Further to these specific, known requirements, future changes to environmental legislation, including legislation for air pollution and greenhouse gas emissions, may impose further requirements on operators and other companies in the crude oil and natural gas industry. PrairieSky works with applicable federal, provincial and municipal regulators to ensure compliance.

Third-party operations and activities associated with the Royalty Properties emit greenhouse gases which may require parties leasing and/or operating the Royalty Properties to comply with federal and/or provincial greenhouse gas emissions legislation. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate measures that are ultimately put in place. Lessees and third-party operators of the Royalty Properties are responsible for the costs associated with environmental regulation and adherence to regulation. PrairieSky may be directly impacted by reduced industry activity or the inability to collect royalty payments. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on the Company's operations and financial condition. Additional specific risk factors related to the environment and climate change are included in PrairieSky's Annual Information Form and readers are encouraged to review such material, as well as PrairieSky's Responsibility Report which is located on our website at www.prairiesky.com.

FURTHER INFORMATION ON RISK FACTORS AND INDUSTRY CONDITIONS

For a detailed discussion of the risks, uncertainties and industry conditions associated with PrairieSky's business, refer to PrairieSky's Annual Information Form dated February 10, 2020, which is available under PrairieSky's SEDAR profile at www.sedar.com and at www.prairiesky.com.

ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICIES

ACCOUNTING JUDGMENTS AND ESTIMATES

Certain of the Company's accounting policies require subjective judgment about uncertain circumstances. The potential effect of these estimates, as described in the Company's 2019 Annual MD&A, have not changed during the current period, except as noted below under "Accounting Policy Changes" and as noted in the interim condensed consolidated financial statements for the three-month period ended March 31, 2020. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

ACCOUNTING POLICY CHANGES

IFRS 3

On January 1, 2020, the Company adopted the amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test. No business combinations were completed during the three-month period ended March 31, 2020.

CONTROL ENVIRONMENT

PrairieSky is required to comply with National Instrument 52-109 "Certification of Disclosure on Issuers' Annual and Interim Filings". The certification of interim filings for the interim period ended March 31, 2020, requires that PrairieSky disclose in the interim MD&A any changes in PrairieSky's internal controls over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect PrairieSky's internal controls over financial reporting. PrairieSky confirms that no such changes were identified in the Company's internal controls over financial reporting during the three-month period beginning on January 1, 2020 and ending on March 31, 2020.

SUMMARY OF QUARTERLY RESULTS AND TRENDS

(\$ millions, unless otherwise noted)	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
FINANCIAL								
Royalty Production Revenue	\$ 70.1	\$ 71.4	\$ 42.4	\$ 66.5	\$ 63.1	\$ 51.9	\$ 63.4	\$ 49.1
Other Revenue	6.1	6.7	9.2	6.7	6.2	6.9	3.7	3.6
Total Revenue	76.2	78.1	51.6	73.2	69.3	58.8	67.1	52.7
Funds from Operations	62.4	67.0	48.5	57.8	58.0	48.8	55.8	46.5
Per Share - basic ⁽¹⁾	0.27	0.29	0.21	0.25	0.25	0.21	0.24	0.20
Per Share - diluted ⁽¹⁾	0.26	0.28	0.21	0.25	0.24	0.21	0.24	0.20
Net Earnings and Comprehensive Income	25.1	28.5	6.0	26.4	44.0	16.7	24.3	8.6
Per Share - basic and diluted ⁽¹⁾	0.11	0.12	0.03	0.11	0.19	0.07	0.10	0.04
Dividends Declared ⁽²⁾	45.9	45.8	45.7	45.6	45.6	45.5	45.4	45.4
Per Share	0.1950	0.1950	0.1950	0.1950	0.1950	0.1950	0.1950	0.1950
Working Capital (Deficiency)	21.1	10.6	(10.4)	(6.2)	(2.1)	(7.4)	(3.1)	(5.2)
OPERATIONAL								
Production Volumes								
Crude Oil (bbls/d)	9,098	9,018	9,163	8,904	8,740	8,011	8,884	8,582
NGL (bbls/d)	2,279	2,503	2,676	2,586	2,690	2,334	2,819	2,945
Natural Gas (MMcf/d)	69.4	71.5	70.0	63.1	65.2	61.0	63.0	63.8
Total (BOE/d)⁽³⁾	22,944	23,438	23,506	22,007	22,297	20,512	22,203	22,160

(1) Net Earnings and Comprehensive Income and Funds from Operations per Share are calculated using the weighted average number of common shares outstanding.

(2) A dividend of \$0.065 per common share was declared on March 16, 2020. The dividend was paid on April 15, 2020 to shareholders of record on March 31, 2020.

(3) See "Conversions of Natural Gas to BOE".

- Quarterly variances in revenues, funds from operations and net earnings are primarily due to fluctuations in realized commodity prices, royalty production volumes, and bonus consideration.
- Crude oil prices are generally determined by global and North American market forces, including supply and demand factors. Changes in the USD-CAD currency exchange rate impact the Company's oil price realization relative to benchmark WTI, which is referenced in US dollars. In the fourth quarter of 2018, realized commodity prices were negatively impacted by wider differentials for Canadian light and heavy crude oil to WTI due to constrained transportation capacity. Differentials narrowed in 2019 with the Alberta government's oil production curtailments but increased again in Q1 2020 due to global crude oil demand and supply imbalances primarily as a result of COVID-19.
- Natural gas prices are influenced by many variables including weather conditions, industrial demand, and North American natural gas inventories. In Western Canada, transportation constraints further impact natural gas prices.

- Royalty production volumes can be influenced by various factors, including the extent of exploration and development activity by third parties on the Royalty Properties, the timing and amount of capital expenditures, the expertise and financial resources of third-party lessees, acquisitions of producing properties and natural declines.
- Other revenue is largely affected by the timing of bonus consideration received when new leases are negotiated, which can vary with the individual terms of each agreement.
- Net earnings are affected by revenues, as noted above, as well as depletion, administrative expenses and income taxes. Administrative expenses can vary in a period due to the effect of the change in share price on the Company's share-based compensation plans. The Alberta corporate income tax rate was reduced for the periods from July 1, 2019 to 2022, which has reduced the provincial income tax rate from 12% to 11% effective July 1, 2019 and further reduced the rate by 1% effective January 1, 2020 with additional 1% reductions commencing January 1, 2021, and 2022. The initial deferred tax recovery related to the tax rate reductions was recorded in Q2 2019.
- Dividends decline marginally as the number of shares outstanding in the quarter is reduced by share repurchases and cancellations under the NCIB. The dividend is set by the Board of Directors by considering forecasted funds from operations for the next year.
- The Company has returned \$364.9 million in the form of dividends to shareholders and has repurchased over 2.8 million common shares for \$54.3 million over the past eight quarters.
- Working capital decreased in Q4 2018 as cash on hand was used to complete acquisitions of incremental royalty interests and seismic. Declining prices in Q4 2018 reduced accounts receivable and accrued revenue at the end of 2018, resulting in a working capital deficiency at December 31, 2018. The working capital deficiency fluctuates primarily as a result of changes in commodity prices affecting the royalty production revenue receivable recorded.

NON-GAAP MEASURES

Certain measures in this MD&A do not have any standardized meaning as prescribed by IFRS and therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures are commonly used in the crude oil and natural gas industry and by the Company to provide potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Non-GAAP measures include operating netback, operating netback per BOE, cash administrative expenses and cash administrative expenses per BOE. Management's use of these measures is discussed further below.

"Operating Netback" represents the cash margin for products sold. Operating netback is calculated as royalty revenue less production and mineral taxes and administrative expenses. Operating netback provides a consistent measure of the cash generating and operating performance of the Royalty Properties to assess the comparability of the underlying performance between years.

"Operating Netback per BOE" represents the cash margin for products sold on a BOE basis. Operating netback per BOE is calculated by dividing the operating netback by the average daily production volumes for the period. Operating netback per BOE is used to assess the cash generating and operating performance per unit of product sold. Operating netback per BOE measures are commonly used in the crude oil and natural gas industry to assess performance comparability. Refer to the Operating Results table in this MD&A document for a summary of this reporting period's operating netback calculations.

"Cash Administrative Expenses" represents administrative expenses excluding the volatility and fluctuations in share-based compensation expense for RSUs, PSUs and DSUs and stock options that were not settled in cash in the current period. Cash administrative expenses are calculated as total administrative expenses, adjusting for share-based compensation expense (recovery) in the period, plus any actual cash payments made under

the RSU, PSU or DSU plans. Management believes cash administrative expenses are a common benchmark used by investors when comparing companies to evaluate operating performance.

"Cash Administrative Expenses per BOE" represents cash administrative expenses on a BOE basis. Cash administrative expenses per BOE is calculated by dividing cash administrative expenses by the average daily production volumes for the period. Cash administrative expenses per BOE assists management and investors in evaluating operating performance on a comparable basis.

CASH ADMINISTRATIVE EXPENSES

The following table presents the computation of Cash Administrative Expenses:

(\$ millions)	Three months ended March 31	
	2020	2019
Total Administrative Expenses	\$ 4.5	\$ 6.7
Share-Based Compensation Recovery (Expense)	0.8	(1.3)
Cash Payments Made Under RSU and PSU Plans	1.7	2.2
Cash Administrative Expenses	\$ 7.0	\$ 7.6

ADVISORY

FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at April 20, 2020 and contains forward-looking statements that we believe allow readers to better understand our business and prospects. Forward-looking statements contained in this MD&A include our expectations with respect to the following:

- Commodity prices including supply and demand factors relating to crude oil, natural gas and NGL, and specifically the effect of the Covid-19 pandemic on future royalty production volumes, revenues and cash flow.
- expected future commitments and payments related thereto;
- PrairieSky's business and growth strategy and anticipated sources of future income;
- PrairieSky's dividend policy and its intention to distribute the majority of cash flow as dividends and share repurchases and cancellations over time, which intention could change with little or no notice;
- PrairieSky's normal course issuer bid and specifically the volume and value of future repurchases under the normal course issuer bid;
- the manner in which PrairieSky manages collection and credit risk and its belief that the diversity of payors and products mitigate this risk;
- possible revisions to accrued estimates based on receipt of actual results;
- impact of compliance activities and recoveries, which vary quarterly;
- impact of bonus consideration, which varies quarterly;
- the Company's expectations regarding production curtailments in Alberta, and shut-ins across the Royalty Properties, and the impacts thereof;
- the Company's estimate regarding operator's approach to budgets and capital spending;
- impact of PrairieSky's share price on administrative expenses;
- the expectation that there will be no operating costs, capital costs, environmental liabilities, or abandonment and reclamation obligations associated with development of the Royalty Properties;

- changes to the legislative and regulatory frameworks in the jurisdictions in which the Company carries on a business;
- changes to Alberta provincial income tax rates;
- the ability to mitigate the risks of fluctuations in commodity prices and production volumes, including but not limited to impacts from a slowdown in both drilling and workover activity; and
- average production contributions from the Royalty Properties including the impact of declines.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, lack of pipeline capacity, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, political and geopolitical instability, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. In addition, PrairieSky is subject to numerous risks and uncertainties in relation to acquisitions. These risks and uncertainties include risks relating to title to the assets acquired and the potential for disputes to arise with third parties, and limited ability to recover indemnification from such third parties under certain agreements. The foregoing and other risks are described in more detail in PrairieSky's Annual Information Form and in this MD&A under the heading "Risk Management".

With respect to forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things, the ability of the lessees and working interest owners on the Royalty Properties to maintain or increase production and reserves from these properties; the ability and willingness of the lessees and working interest owners on the Royalty Properties to comply with, and PrairieSky to enforce, lease terms and contractual provisions, as applicable, in order to receive payments; the ability of the lessees or working interest owners on the Royalty Properties to operate in a safe, efficient and effective manner; the timely receipt of any required regulatory approvals by lessees or working interest owners on the Royalty Properties; the willingness and financial capability of the lessees and working interest owners to continue to develop and invest additional capital in the Royalty Properties; the ability of the lessees and working interest owners on the Royalty Properties to obtain financing on acceptable terms to fund capital expenditures; field production rates, decline rates and the well performance and characteristics of the Royalty Properties; the ability to replace and increase crude oil, natural gas and NGL reserves and production associated with the Royalty Properties through third-party development and complementary acquisitions; the timing, cost and ability of third parties to access, maintain or expand necessary facilities and/or secure adequate product transportation and storage; the ability of the third-party operators on the Royalty Properties to successfully market their respective petroleum and natural gas products or, for royalty payments taken-in-kind by PrairieSky, the ability of PrairieSky or a third-party marketer to successfully market PrairieSky's in-kind petroleum and natural gas products; surface rights access being granted to third parties on PrairieSky's properties; the benefits of the seismic data anticipated to be used by PrairieSky and sub-licensed to lessees on the Royalty Properties; the level of costs and expenses to be incurred by PrairieSky, including with respect to interest, production and mineral taxes, administrative expenses and income taxes; the ability of PrairieSky to obtain and retain qualified staff and services in a timely and cost efficient manner; the absence of any material litigation or claims against or involving PrairieSky; the general stability of the economic and political environment and the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which PrairieSky has an interest in crude oil and natural gas properties; future crude oil, natural gas and NGL prices and currency exchange and interest rates; the effects of COVID-19 on global crude oil demand and pricing; and PrairieSky's ability to execute the volume and/or value of purchases as described under the normal course issuer bid or future normal course issuer bids.

Readers are cautioned that the assumptions used in the preparation of such forward-looking information and statements, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. Statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions that the

reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive.

Any forward-looking statement is made only as of the date of this MD&A, and PrairieSky undertakes no obligation to update or revise any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws. New factors emerge from time to time, and it is not possible for PrairieSky to predict all of these factors or to assess in advance the impact of each such factor on PrairieSky's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

You are further cautioned that the preparation of consolidated financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates may change, having either a positive or negative effect on net earnings, as further information becomes available and as the economic environment changes.

CONVERSIONS OF NATURAL GAS TO BOE

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (BOE). We use the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 BOE ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the BOE ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

CURRENCY AND REFERENCES TO PRAIRIESKY

All information included in this MD&A, and the interim condensed consolidated financial statements is shown on a Canadian dollar basis.

For convenience, references in this document to the "Company", "we", "us", "our", and "its" may, where applicable, refer only to PrairieSky.

ADDITIONAL INFORMATION

Additional information about PrairieSky, including the 2019 audited annual consolidated financial statements and notes thereto, and PrairieSky's Annual Information Form, is available on SEDAR at www.sedar.com or PrairieSky's website at www.prairiesky.com.