



TSX | PSK

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS
ENDED MARCH 31, 2020

HIGH MARGINS
ZERO CAPITAL

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

(millions)		As at March 31, 2020	As at December 31, 2019
Assets			
Current Assets			
Accounts receivable and accrued revenue	(Note 4)	\$ 31.3	\$ 37.3
Income tax receivable		3.2	-
Prepays		0.5	0.6
		35.0	37.9
Royalty assets, net	(Note 5)	662.6	682.5
Exploration and evaluation assets	(Note 6)	1,356.2	1,368.1
Goodwill	(Note 7)	631.0	631.0
Total Assets		\$ 2,684.8	\$ 2,719.5
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank debt	(Note 8, 17)	\$ 2.4	\$ 7.3
Accounts payable and accrued liabilities	(Note 9)	22.7	13.9
Income tax payable		-	4.7
Dividend payable	(Note 11)	15.1	15.1
		40.2	41.0
Lease obligation	(Note 10)	2.1	2.2
Share-based compensation payable	(Note 12)	0.6	1.0
Deferred income taxes		197.7	189.6
Total Liabilities		240.6	233.8
Shareholders' Equity			
Shareholders' capital	(Note 11)	3,288.8	3,293.6
Paid in surplus		6.9	6.6
Deficit		(851.5)	(814.5)
Total Shareholders' Equity		2,444.2	2,485.7
Total Liabilities and Shareholders' Equity		\$ 2,684.8	\$ 2,719.5

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	
		2020	2019
Revenues			
Royalty production revenue	(Note 13)	\$ 49.1	\$ 66.5
Other revenue	(Note 13)	3.6	6.7
Revenues		52.7	73.2
Expenses			
Administrative	(Note 14)	4.5	6.7
Production and mineral taxes		1.3	1.4
Depletion, depreciation and amortization	(Note 5)	30.0	31.3
Exploration and evaluation	(Note 6)	2.3	0.3
Net Earnings Before Finance Items and Income Taxes		14.6	33.5
Finance Items			
Finance expense		0.3	0.4
Net Earnings Before Income Taxes		14.3	33.1
Income tax expense	(Note 15)	5.7	6.7
Net Earnings and Comprehensive Income		\$ 8.6	\$ 26.4
Net Earnings per Common Share			
Basic and Diluted	(Note 11)	\$ 0.04	\$ 0.11

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, 2019	\$ 3,293.6	\$ 6.6	\$ (814.5)	\$ 2,485.7
Net earnings	-	-	8.6	8.6
Common shares repurchased and cancelled (Note 11)	(4.8)	-	(0.2)	(5.0)
Share-based compensation (Note 12)	-	0.3	-	0.3
Dividends on common shares (Note 11)	-	-	(45.4)	(45.4)
Balance at March 31, 2020	\$ 3,288.8	\$ 6.9	\$ (851.5)	\$ 2,444.2

(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 and cancelled (Note 11)	(4.7)	-	(1.6)	(6.3)
Share-based compensation (Note 12)	-	0.4	-	0.4
Dividends on common shares (Note 11)	-	-	(45.6)	(45.6)
Balance at March 31, 2019	\$ 3,304.1	\$ 5.2	\$ (760.8)	\$ 2,548.5

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(millions)		Three months ended March 31	
		2020	2019
Operating Activities			
Net earnings		\$ 8.6	\$ 26.4
Depletion, depreciation and amortization	(Note 5)	30.0	31.3
Exploration and evaluation	(Note 6)	2.3	0.3
Deferred tax expense	(Note 15)	8.1	0.7
Share-based compensation, net of cash settlements	(Note 12)	(2.5)	(0.9)
Funds from operations		46.5	57.8
Net change in non-cash working capital	(Note 18)	9.5	(15.6)
Cash From Operating Activities		56.0	42.2
Investing Activities			
Royalty asset acquisitions	(Note 5)	(0.1)	(0.1)
Exploration and evaluation acquisitions	(Note 6)	(0.4)	(1.5)
Cash Used in Investing Activities		(0.5)	(1.6)
Financing Activities			
Dividends on common shares	(Note 11)	(45.4)	(45.6)
Common shares repurchased	(Note 11)	(5.0)	(6.3)
Bank debt	(Note 8)	(4.9)	10.8
Payments on lease obligation	(Note 10)	(0.2)	(0.1)
Net change in non-cash working capital	(Note 18)	-	0.6
Cash Used in 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		\$ -	\$ -

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

NOTES TO THE MARCH 31, 2020 AND 2019 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

A) 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, 2019. 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 the amendments to the definition of a business in IFRS 3 have 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 20, 2020.

B) 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, 2019, other than as related to the determination of the recoverable amount in the goodwill impairment test as described in Note 7.

3. CHANGES IN ACCOUNTING POLICIES

C) 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.

4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	As at March 31, 2020	As at December 31, 2019
Trade receivables and accrued revenue	\$ 22.1	\$ 38.0
Production and mineral taxes receivable	10.4	0.5
	32.5	38.5
Allowance for doubtful accounts	(1.2)	(1.2)
	\$ 31.3	\$ 37.3

Trade receivables and accrued revenue relate to lease and royalty production payments receivable. Production and mineral taxes are billed annually in March for the province of Alberta and are recorded in accounts payable (see Note 9). The amount to be recovered from third-party lessees is recorded in accounts 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, 2020	\$ 31.3	\$ 31.3	\$ -	\$ -
As at December 31, 2019	\$ 37.3	\$ 37.2	\$ 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 17 for further information about credit risk.

5. ROYALTY ASSETS, NET

	As at March 31, 2020	As at December 31, 2019
Cost		
Balance, Beginning of Period	\$ 1,395.9	\$ 1,346.7
Asset acquisitions	0.1	0.2
Transfers from exploration & evaluation assets (Note 6)	10.0	45.6
Increase in right-of-use asset	-	3.4
Balance, End of Period	1,406.0	1,395.9
Accumulated Depletion, Depreciation and Amortization		
Balance, Beginning of Period	(713.4)	(590.2)
Depletion, depreciation and amortization	(30.0)	(123.2)
Balance, End of Period	(743.4)	(713.4)
Net Book Value, End of Period	\$ 662.6	\$ 682.5

For the three-month period ended March 31, 2020, royalty assets acquired totaled \$0.1 million (three months ended March 31, 2019 - \$0.1 million), which were primarily acquisitions of fee simple land. At March 31, 2020, the Company identified indicators of impairment, see Note 7.

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

	As at March 31, 2020	As at December 31, 2019
Cost		
Balance, Beginning of Period	\$ 1,368.1	\$ 1,408.8
Asset acquisitions	0.4	11.0
Transfers to royalty assets (Note 5)	(10.0)	(45.6)
Land expiries	(2.3)	(6.1)
Balance, End of Period	\$ 1,356.2	\$ 1,368.1

E&E asset acquisitions totaled \$0.4 million for the three-month period ended March 31, 2020 (March 31, 2019 - \$1.5 million) and included Crown land and GORR interests acquired on non-producing assets. At March 31, 2020, the Company identified indicators of impairment, see Note 7.

7. GOODWILL

At March 31, 2020, the Company identified indicators of impairment due to unprecedented stock market volatility resulting from crude oil pricing policies implemented by global participants, as well as the global oil demand reduction and business interruptions due to the spread of the novel coronavirus (COVID-19). As a result, the Company tested for impairment by comparing the recoverable amount of the Company's one cash generating unit ("CGU") to the carrying value of its net assets. The recoverable amount of the Company's assets was estimated based on the future cash flows expected to be derived from the CGU (value in use). The key assumptions used by the Company in determining the value in use include oil and gas reserves, discount rate, future commodity prices, and the timing of third-party future development on the Royalty Properties of the Company. The values of these assumptions have been assigned based on internal and external reserve evaluators, and a third-party price deck as at April 1, 2020, as noted below. Realized prices in the model were adjusted from benchmark commodity prices for quality differentials and allowable deductions, as applicable. The cash flow projections include specific estimates of the third-party capital to be spent developing the lands which considers historical investment adjusted for the current environment. The fair value measurement of the Company's goodwill is designated Level 3 on the fair value hierarchy. Changes in any of the key judgments, such as a downward revision in reserves, a decrease in

forecast benchmark commodity prices, or changes in foreign exchange rates would decrease the recoverable amounts of assets and any impairment charges would affect net income.

The Company used an pre-tax discount rate of 10%.

GLJ price deck ⁽¹⁾	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 ⁽²⁾
WTI crude oil (US\$/bbl)	34.20	41.00	47.50	52.50	57.50	58.95	60.13	61.33	62.56	63.81
AECO natural gas (\$/MMBtu)	1.98	2.25	2.35	2.45	2.55	2.65	2.70	2.76	2.81	2.87
Exchange Rate (USD/CAD)	0.7268	0.7300	0.7350	0.7400	0.7450	0.7500	0.7500	0.7500	0.7500	0.7500

(1) April 1, 2020 – GLJ Petroleum Consultants Ltd.

(2) Forecast benchmark commodity prices are assumed to increase by 2% in each year after 2029. Forecast exchange rate is assumed to remain at 0.7500 USD/CAD each year after 2029.

As a result of this assessment, the recoverable amount of the CGU was estimated to be in excess of its carrying amount of \$2.4 billion and no impairment was required. For the period ended March 31, 2020, a one percent increase in the assumed discount rate or a five percent decrease in the forecast operating cash flows would not result in an impairment.

8. BANK DEBT

At March 31, 2020, the Company had a \$200 million extendible revolving credit facility (the "Revolving Facility"), with a permitted increase to \$250 million, subject to lender consent, 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, 2020, \$2.4 million was drawn on the Operating Facility (December 31, 2019 - \$7.3 million). The Revolving Facility remains undrawn. The effective interest rate for the three-month period ended March 31, 2020 was 4.3% (March 31, 2019 - 4.5%).

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.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at March 31, 2020	As at December 31, 2019
Trade payables	\$ 1.0	\$ 1.3
Production and mineral taxes payable	15.1	3.9
Accrued liabilities for cash settled share-based compensation (Note 12)	2.2	4.6
Current portion of lease obligation (Note 10)	0.6	0.6
Other accrued liabilities	3.8	3.5
	\$ 22.7	\$ 13.9

Production and mineral taxes are billed annually in March for the province of Alberta and the gross amount is recorded in accounts payable. Amounts recoverable from third-party lessees are recorded in accounts receivable (see Note 4).

10. LEASE OBLIGATION

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

	As at March 31, 2020	As at December 31, 2019
Less than 1 year	\$ 0.8	\$ 0.7
2-3 years	1.5	1.5
4-5 years	0.7	0.9
Total lease payments	3.0	3.1
Amounts representing interest over the term of the lease	(0.3)	(0.3)
Present value of net lease payments	2.7	2.8
Current portion of lease obligation (Note 9)	(0.6)	(0.6)
Non-current portion of lease obligation	\$ 2.1	\$ 2.2

For the three months ended March 31, 2020, non-cash interest expense of \$32,000 (March 31, 2019 - \$30,000) was recognized relating to the lease obligation. Total cash outflows for the three months ended March 31, 2020 of \$0.4 million (March 31, 2019 - \$0.3 million) includes \$0.2 million (March 31, 2019 - \$0.2 million) of variable lease payments recognized in administrative expenses. The \$0.2 million of lease liability payments are included in financing activities in the consolidated statements of cash flows for the three-month period ended March 31, 2020 (March 31, 2019 - \$0.1 million).

11. 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, 2020		As at December 31, 2019	
	Number of Shares (millions)	Amount (\$ millions)	Number of Shares (millions)	Amount (\$ millions)
Common Shares Outstanding, Beginning of Period	233.1	\$ 3,293.6	234.2	\$ 3,308.8
Common shares repurchased and cancelled	(0.5)	(4.8)	(1.1)	(15.2)
Common Shares Outstanding, End of Period	232.6	\$ 3,288.8	233.1	\$ 3,293.6

NORMAL COURSE ISSUER BID ("NCIB")

On May 8, 2019, 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 2,700,000 common shares over a twelve-month period which commenced on May 13, 2019 and expires no later than May 12, 2020. PrairieSky has allocated a maximum of \$50.0 million to repurchase common shares under the NCIB over such twelve-month period. All common shares purchased under the NCIB are cancelled.

During the three-month period ended March 31, 2020, the Company purchased for cancellation 0.5 million common shares (March 31, 2019 - 0.3 million common shares) at an average cost of \$11.41 per common share (March 31, 2019 - \$19.07 per common share) for total consideration of \$5.0 million (March 31, 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 (March 31, 2019 - \$1.6 million) was charged to the deficit for the period.

DIVIDENDS

During the three-month period ended March 31, 2020, PrairieSky declared dividends of \$45.4 million (March 31, 2019 - \$45.6 million) or \$0.1950 per common share (March 31, 2019 - \$0.1950).

On March 16, 2020, the Board of Directors declared a dividend of \$0.065 per common share or \$15.1 million payable on April 15, 2020 to common shareholders of record on March 31, 2020. The Company announced it will move to a quarterly dividend effective in the second quarter of 2020, with the initial quarterly dividend of \$0.06 per common share to be declared and paid to holders of record on June 30, 2020.

NET EARNINGS PER COMMON SHARE

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

	Three months ended March 31	
	2020	2019
Net Earnings	\$ 8.6	\$ 26.4
Number of Common Shares:		
Weighted Average Common Shares Outstanding - Basic	233.0	234.0
Effect of Dilutive Securities	0.4	0.2
Weighted Average Common Shares Outstanding - Diluted	233.4	234.2
Net Earnings per Common Share - Basic and Diluted	\$ 0.04	\$ 0.11

12. 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"), officer deferred share units ("ODSUs") 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, ODSUs 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 and ODSUs vest evenly over a three-year period, provided the employee or officer 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	
	2020	2019
Compensation costs of transactions classified as equity-settled	\$ 0.3	\$ 0.4
Compensation costs (recovery) of cash settled transactions	(1.1)	0.9
Total share-based compensation expense (recovery)	\$ (0.8)	\$ 1.3

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

	As at March 31, 2020	As at December 31, 2019
Liability for unvested cash-settled plans	\$ 0.8	\$ 2.9
Liability for vested cash-settled plans	2.0	2.7
Liability for cash-settled plans	\$ 2.8	\$ 5.6

Company payouts related to share-based compensation during the three months ended March 31, 2020 were \$1.7 million (March 31, 2019 - \$2.2 million). As at March 31, 2020, \$2.2 million (December 31, 2019 - \$4.6 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 held by non-executive directors of \$2.0 million (December 31, 2019 - \$2.7 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 \$0.6 million (December 31, 2019 - \$1.0 million) is a long-term liability and is reported as share-based compensation payable.

A) STOCK OPTIONS

The Company has a Stock Option Plan that provides for granting of stock options to officers and certain employees. Stock options vest annually on their anniversary date 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, 2018	998.2	30.09
Granted	564.3	17.67
Issued and Outstanding, December 31, 2019	1,562.5	25.08
Granted	270.2	15.23
Expired	(193.1)	30.81
Forfeited	(2.0)	32.06
Issued and Outstanding, March 31, 2020	1,637.6	22.77

There were no stock options exercised in the three-month period ended March 31, 2020 or 2019.

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

	March 31, 2020	December 31, 2019
Risk free interest rate	1.61%	1.91%
Dividend yield	5.12%	4.41%
Expected volatility rate based on historical volatility	31%	33%
Forfeiture rate	6.4%	6.4%
Expected life	5 years	5 years
Weighted average grant price	\$15.23	\$17.67
Fair value per option on grant date	\$2.50	\$3.41

The following table summarizes information regarding stock options outstanding at March 31, 2020:

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)
\$15.23-\$25.90	1,113,803	3.24	18.41	448,596	20.97	3.28
\$30.80-\$32.06	523,842	2.31	32.05	413,552	32.04	8.00

The following table summarizes information regarding stock options outstanding at December 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	3.01	19.43	279,301	22.98	3.53
\$30.80-\$32.06	718,900	1.92	31.71	425,245	31.48	6.90

For the three months ended March 31, 2020, administrative expense includes \$0.3 million (March 31, 2019 - \$0.4 million) of compensation costs related to stock options.

B) 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 and 2020 PSU grants, 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, 2020	As at December 31, 2019
Issued and Outstanding, Beginning of Period	515.7	337.0
Granted	241.5	240.2
Vested	(127.8)	(84.5)
Units, in lieu of dividends	13.8	23.0
Issued and Outstanding, End of Period	643.2	515.7

For the three months ended March 31, 2020, the Company recorded a compensation recovery of \$0.3 million (March 31, 2019 - \$0.4 million recovery) related to outstanding PSUs. The market common share price used in the PSU fair value calculation at March 31, 2020 was \$7.43 (March 31, 2019 - \$18.00). The remaining weighted average life is 1.9 years.

C) 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, 2020	As at December 31, 2019
Issued and Outstanding, Beginning of Period	117.1	98.1
Granted	78.9	76.5
Vested	(51.0)	(57.5)
Forfeited	(1.4)	(5.1)
Units, in lieu of dividends	3.1	5.1
Issued and Outstanding, End of Period	146.7	117.1

For the three months ended March 31, 2020, the Company recorded compensation recovery of \$0.2 million (March 31, 2019 - expense of \$0.5 million) related to outstanding RSUs. The market common share price used in the RSU fair value calculation at March 31, 2020 was \$7.43 (March 31, 2019 - \$18.00). The remaining weighted average life is 1.5 years.

D) OFFICER DEFERRED SHARE UNITS

In November 2019, the Company adopted the ODSU plan. The first grant of the ODSU plan occurred in January 2020. The ODSUs have been granted to officers of the Company and entitle the officer to receive, upon departure from the Company, a cash payment that is equal to the value of one common share for each vested ODSU held, plus accrued dividends over the period from the date of grant to the date vested ODSUs are redeemed, which must be within 15 business days of the officer's departure from the Company. The cash payment to the officer is to be paid, at the Company's discretion, no later than December 31 of the first calendar year commencing after the date of the officer's departure.

The following table summarizes information related to the ODSUs:

<i>Outstanding ODSUs (thousands of units)</i>	As at March 31, 2020
Issued and Outstanding, Beginning of Period	-
Granted	40.3
Units, in lieu of dividends	0.8
Issued and Outstanding, End of Period	41.1

For the three months ended March 31, 2020, the Company recorded a compensation expense of \$0.1 million related to outstanding ODSUs. The market common share price used in the ODSU fair value calculation at March 31, 2020 was \$7.43.

E) 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 months ended March 31, 2020, 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, 2020	As at December 31, 2019
Issued and Outstanding, Beginning of Period	174.5	116.2
Granted	71.1	50.7
Units, in lieu of dividends	5.3	7.6
Issued and Outstanding, End of Period	250.9	174.5

For the three months ended March 31, 2020, the Company recorded a compensation recovery of \$0.7 million (March 31, 2019 - expense of \$0.8 million) related to outstanding DSUs. The market common share price used in the DSU fair value calculation at March 31, 2020 was \$7.43 (March 31, 2019 - \$18.00).

13. 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	
	2020	2019
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

Revenues by Classification	Three months ended March 31	
	2020	2019
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

At March 31, 2020, receivables from contracts with customers, which are included in accounts receivable and accrued revenue, totaled \$20.9 million (December 31, 2019 - \$36.8 million). For the three months ended March 31, 2020, the Company recorded \$6.4 million (March 31, 2019 - \$6.0 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, but were reported in the current year once collection risk was mitigated.

14. ADMINISTRATIVE EXPENSES

	Three months ended March 31	
	2020	2019
Salaries and benefits	\$ 3.3	\$ 3.4
Share-based compensation (recovery) (Note 12)	(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
Administrative Expenses	\$ 4.5	\$ 6.7

15. INCOME TAXES

	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

16. 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 requirements, 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 8), 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, commodity prices and level of costs incurred by the Company.

	As at March 31, 2020	As at December 31, 2019
Shareholders' equity	\$ 2,444.2	\$ 2,485.7
Working capital (deficiency)	(5.2)	(3.1)

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, current 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 could impact cash flow. 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. 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, primarily as a result of lower accrued royalty revenue at March 31, 2020 due to a decline in benchmark oil and gas prices due to global supply and demand factors. The Company's working capital deficiency includes \$2.0 million (December 31, 2019 - \$2.7 million) related to the liability for vested cash-settled DSUs issued to non-executive directors which 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. See Note 12.

17. 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, and dividend payable 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. 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 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. The Company has minimal interest rate risk as its bank debt is \$2.4 million and it is only drawn on the Operating Facility at March 31, 2020. The Revolving Facility remains undrawn.

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. 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 of the Company. 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 and has letters of credit in place with certain producers.

As at March 31, 2020, there was no 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.

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. 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. The Company has unused capacity under its Credit Facility, described below, for 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 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 issued to non-executive directors 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, royalty production volumes, economic conditions, income taxes, and PrairieSky's capacity to fund its expenses and investing opportunities.

18. SUPPLEMENTARY INFORMATION

NET CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended March 31	
	2020	2019
Source (use) of cash:		
Accounts receivable and accrued revenue	\$ 6.0	\$ (33.1)
Prepays	0.1	0.1
Accounts payable and accrued liabilities	11.3	12.0
Income tax payable (receivable)	(7.9)	6.0
Changes in non-cash working capital	\$ 9.5	\$ (15.0)
Related to operating activities	9.5	(15.6)
Related to financing activities	-	0.6
Changes in non-cash working capital	\$ 9.5	\$ (15.0)

SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended March 31	
	2020	2019
Taxes paid	\$ 5.5	\$ -
Interest paid	0.3	0.3

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

- (1) Chair of the Board.
- (2) Member of the Governance and Compensation Committee. Mr. Stadnyk 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.

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

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
WCS – Western Canadian Select

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