INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

FOR THE THREE MONTHS ENDED MARCH 31, 2021

HIGH MARGINS ZERO CAPITAL

PRAIRIESKY ROYALTY LTD

TSX | PSK

Condensed Consolidated Statements of Financial Position (unaudited)

(millions)		As at March 31, 2021	As at December 31, 2020
Assets			
Current Assets			
Accounts receivable and accrued royalty revenue	*(Note 3)*	**$ 44.2**	$ 27.2
Prepaids		**0.7**	0.5
		44.9	27.7
Royalty assets, net	*(Note 4)*	**627.6**	623.5
Exploration and evaluation assets	*(Note 5)*	**1,342.2**	1,325.5
Goodwill		**631.0**	631.0
Total Assets		**$ 2,645.7**	$ 2,607.7
Liabilities and Shareholders' Equity			
Current Liabilities			
Bank debt	*(Note 6, 15)*	**$ 61.0**	$ 42.9
Accounts payable and accrued liabilities	*(Note 7)*	**22.8**	11.9
Income tax payable		**3.8**	1.5
Dividend payable	*(Note 9)*	**14.5**	13.4
		102.1	69.7
Lease obligation	*(Note 8)*	**1.4**	1.6
Share-based compensation payable	*(Note 10)*	**2.5**	1.9
Deferred income taxes		**194.1**	193.0
Total Liabilities		**300.1**	266.2
Shareholders' Equity			
Shareholders' capital	*(Note 9)*	**3,202.9**	3,202.9
Paid in surplus		**7.9**	7.7
Deficit		**(865.2)**	(869.1)
Total Shareholders' Equity		**2,345.6**	2,341.5
Total Liabilities and Shareholders' Equity		**$ 2,645.7**	$ 2,607.7

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 2021	2020
Revenues			
Royalty production revenue	*(Note 11)*	**$ 56.7**	$ 49.1
Other revenue	*(Note 11)*	**2.8**	3.6
Revenues		**59.5**	52.7
Expenses			
Administrative	*(Note 12)*	**10.2**	4.5
Production and mineral taxes		**1.0**	1.3
Depletion, depreciation and amortization	*(Note 4)*	**22.8**	30.0
Exploration and evaluation	*(Note 5)*	**2.0**	2.3
Net Earnings Before Finance Items and Income Taxes		**23.5**	14.6
Finance Items			
Finance expense		**0.5**	0.3
Net Earnings Before Income Taxes		**23.0**	14.3
Income tax expense	*(Note 13)*	**4.6**	5.7
Net Earnings and Comprehensive Income		**$ 18.4**	$ 8.6
Net Earnings per Common Share			
Basic and Diluted	*(Note 9)*	**$ 0.08**	$ 0.04

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, 2020		**$ 3,202.9**	**$ 7.7**	**$ (869.1)**	**$ 2,341.5**
Net earnings		**-**	**-**	**18.4**	**18.4**
Share-based compensation	*(Note 10)*	**-**	**0.2**	**-**	**0.2**
Dividends on common shares	*(Note 9)*	**-**	**-**	**(14.5)**	**(14.5)**
Balance at March 31, 2021		**$ 3,202.9**	**$ 7.9**	**$ (865.2)**	**$ 2,345.6**

(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 9)*	(4.8)	-	(0.2)	(5.0)
Share-based compensation	*(Note 10)*	-	0.3	-	0.3
Dividends on common shares	*(Note 9)*	-	-	(45.4)	(45.4)
Balance at March 31, 2020		$ 3,288.8	$ 6.9	$ (851.5)	$ 2,444.2

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (unaudited)

(millions)		Three months ended March 31 2021	2020
Operating Activities			
Net earnings		**$ 18.4**	$ 8.6
Depreciation, depletion and amortization	*(Note 4)*	**22.8**	30.0
Exploration and evaluation	*(Note 5)*	**2.0**	2.3
Deferred tax expense	*(Note 13)*	**1.1**	8.1
Share-based compensation, net of cash settlements	*(Note 10)*	**4.5**	(2.5)
Funds from Operations		**48.8**	46.5
Net change in non-cash working capital	*(Note 16)*	**(4.0)**	9.5
Cash From Operating Activities		**44.8**	56.0
Investing Activities			
Royalty asset acquisitions	*(Note 4)*	**(20.5)**	(0.1)
Exploration and evaluation acquisitions	*(Note 5)*	**(25.1)**	(0.4)
Net change in non-cash working capital	*(Note 16)*	**(3.4)**	-
Cash Used in Investing Activities		**(49.0)**	(0.5)
Financing Activities			
Dividends on common shares	*(Note 9)*	**(13.4)**	(45.4)
Common shares repurchased	*(Note 9)*	**-**	(5.0)
Bank debt draws (repayments)	*(Note 6)*	**18.1**	(4.9)
Payments on lease obligation	*(Note 8)*	**(0.2)**	(0.2)
Net change in non-cash working capital	*(Note 16)*	**(0.3)**	-
Cash From (Used in) Financing Activities		**4.2**	(55.5)
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.

1. Nature of Operations

PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") has a geologically and geographically diverse portfolio of fee simple mineral title ("Fee Lands"), lessor interests in and to leases that are currently issued in respect of certain Fee Lands ("Lessor Interests"), crude oil and natural gas overriding royalty interests, gross overriding royalty interests, net profit interests and production payments on lands (collectively, "GORR 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, 2020. 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.

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 19, 2021.

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.

During the first quarter of 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic prompting many countries around the world to close international borders, place restrictions on travel and force closures for certain types of public places and businesses that were deemed non-essential, causing significant disruption to global economies. Although health measures have eased and vaccination programs are underway, the potential direct and indirect impacts of the economic downturn, including reduced demand for commodities and continued economic uncertainty, have been considered in management's estimates, and assumptions at period end.

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, 2020.

3. Accounts Receivable and Accrued Royalty Revenue

	As at March 31, 2021	As at December 31, 2020
Trade receivables and accrued royalty revenue	**$ 36.4**	$ 28.3
Production and mineral taxes receivable	**6.8**	-
Indirect tax receivable	**1.3**	-
	44.5	28.3
Allowance for doubtful accounts	**(0.3)**	(1.1)
	$ 44.2	$ 27.2

Trade receivables and accrued royalty 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 7). The amount to be recovered from third-party lessees is recorded in accounts receivable.

The analysis of accounts receivable and accrued royalty 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, 2021	**$ 44.2**	**$ 44.2**	**$ -**	**$ -**
As at December 31, 2020	$ 27.2	$ 27.2	$ -	$ -

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. Refer to Note 15 for further information about credit risk.

4. Royalty Assets, Net

		As at March 31, 2021	As at December 31, 2020
Cost			
Balance, Beginning of Period		**$ 1,441.4**	$ 1,395.9
Asset acquisitions		**20.5**	7.2
Transfers from exploration & evaluation assets	*(Note 5)*	**6.4**	38.3
Balance, End of Period		**1,468.3**	1,441.4
Accumulated Depletion, Depreciation and Amortization			
Balance, Beginning of Period		**(817.9)**	(713.4)
Depletion, depreciation and amortization		**(22.8)**	(104.5)
Balance, End of Period		**(840.7)**	(817.9)
Net Book Value, End of Period		**$ 627.6**	$ 623.5

During the three months ended March 31, 2021, royalty assets acquired totaled $20.5 million (March 31, 2020 - $0.1 million) which were acquisitions of producing Lessor Interests and GORR Interests.

5. Exploration and Evaluation Assets

		As at March 31, 2021	As at December 31, 2020
Cost			
Balance, Beginning of Period		**$ 1,325.5**	$ 1,368.1
Asset acquisitions		**25.1**	2.2
Transfers to royalty assets	*(Note 4)*	**(6.4)**	(38.3)
Land expiries		**(2.0)**	(6.5)
Balance, End of Period		**$ 1,342.2**	$ 1,325.5

For the three months ended March 31, 2021, the Company acquired $25.1 million in E&E assets (March 31, 2020 - $0.4 million), including Fee Lands and GORR Interests on non-producing assets, as well as seismic.

For the three months ended March 31, 2021, $2.0 million (March 31, 2020 - $2.3 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.

6. Bank Debt

On January 29, 2021, the Company voluntarily reduced the extendible revolving credit facility (the "Revolving Facility") to $150 million, with a permitted increase to $200 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. At March 31, 2021, $61.0 million was drawn on the Credit Facility (December 31, 2020 - $42.9 million). The effective interest rate for the three months ended March 31, 2021 was 2.0% (March 31, 2020 - 4.3%).

The Credit Facility includes borrowing options of Canadian prime rate-based advances, U.S. base rate advances, 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 two-year terms maturing on January 30, 2023 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 for the trailing 12 months will not exceed 3.5:1.0, adjusted consolidated total debt to EBITDA for the trailing 12 months 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. All covenants are calculated as at, and for the 12 months ending March 31, 2021. As at March 31, 2021, the Company was compliant with all covenants provided for in the lending agreement.

7. Accounts Payable and Accrued Liabilities

		As at March 31, 2021	As at December 31, 2020
Trade payables		**$ 0.7**	$ 1.6
Production and mineral taxes payable		**10.2**	2.5
Accrued liabilities for cash settled share-based compensation	*(Note 10)*	**6.9**	3.2
Current portion of lease obligation	*(Note 8)*	**0.7**	0.6
Other accrued liabilities		**4.3**	4.0
		$ 22.8	$ 11.9

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 3).

8. Lease Obligation

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

		As at March 31, 2021	As at December 31, 2020
Less than 1 year		**$ 0.8**	$ 0.8
2-3 years		**1.4**	1.5
4-5 years		**-**	0.1
Total lease payments		**2.2**	2.4
Amounts representing interest over the term of the lease		**(0.1)**	(0.2)
Present value of net lease payments		**2.1**	2.2
Current portion of lease obligation	*(Note 7)*	**(0.7)**	(0.6)
Non-current portion of lease obligation		**$ 1.4**	$ 1.6

For the three months ended March 31, 2021, non-cash interest expense of $25,000 (March 31, 2020 - $32,000) was recognized relating to the lease obligation.

Total cash outflows for the three months ended March 31, 2021 of $0.4 million (March 31, 2020 - $0.4 million) include variable lease payments and lease liability payments. Variable lease payments for the three months ended March 31, 2021 of $0.2 million (March 31 2020 - $0.2 million) were recognized in administrative expense and were included in operating activities in the consolidated statements of cash flows. Lease liability payments for the three months ended March 31, 2021 of $0.2 million (March 31, 2020 - $0.2 million) were included in financing activities in the consolidated statements of cash flows.

9. 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, 2021		As at December 31, 2020	
	Number of Shares (millions)	**Amount ($ millions)**	**Number of Shares (millions)**	**Amount ($ millions)**
Common Shares Outstanding, Beginning of Period	**223.3**	**$ 3,202.9**	233.1	$ 3,293.6
Common shares repurchased and cancelled	**-**	**-**	(9.8)	(90.7)
Common Shares Outstanding, End of Period	**223.3**	**$ 3,202.9**	223.3	$ 3,202.9

NORMAL COURSE ISSUER BID ("NCIB")

On May 13, 2020, 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 11,600,000 common shares over a twelve-month period which commenced on May 19, 2020 and expires no later than May 18, 2021.

During the three months ended March 31, 2021, the Company did not purchase any common shares under the NCIB. During the three months ended March 31, 2020, the Company purchased for cancellation 433,700 common shares at an average cost of $11.41 per common share for total consideration of $5.0 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 was charged to the deficit.

DIVIDENDS

During the three months ended March 31, 2021, PrairieSky paid dividends of $13.4 million (March 31, 2020 - $45.4 million) or $0.06 per common share (March 31, 2020 - $0.1950).

On March 9, 2021, the Board of Directors declared a quarterly dividend of $0.065 per common share or $14.5 million payable on April 15, 2021 to common shareholders of record on March 31, 2021.

NET EARNINGS PER COMMON SHARE

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

	Three months ended March 31	
	2021	**2020**
Net Earnings	**$ 18.4**	$ 8.6
Number of Common Shares:		
Weighted Average Common Shares Outstanding - Basic	**223.3**	233.0
Effect of Dilutive Securities	**0.4**	0.4
Weighted Average Common Shares Outstanding - Diluted	**223.7**	233.4
Net Earnings per Common Share - Basic and Diluted	**$ 0.08**	$ 0.04

10. 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 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 has recognized the following share-based compensation costs:

	Three months ended March 31	
	2021	**2020**
Compensation costs of transactions classified as equity-settled	**$ 0.2**	$ 0.3
Compensation costs (recovery) of cash settled transactions	**5.0**	(1.1)
Total share-based compensation expense (recovery)	**$ 5.2**	$ (0.8)

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

	As at March 31, 2021	As at December 31, 2020
Liability for unvested cash-settled plans	**$ 4.4**	$ 2.5
Liability for vested cash-settled plans	**5.0**	2.6
Liability for cash-settled plans	**$ 9.4**	$ 5.1

Company payouts related to share-based compensation during the three months ended March 31, 2021 were $0.7 million (March 31, 2020 - $1.7 million). As at March 31, 2021, $6.9 million (December 31, 2020 - $3.2 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 $5.0 million (December 31, 2020 - $2.6 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 $2.5 million (December 31, 2020 - $1.9 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, 2019	1,562.5	25.08
Granted	270.2	15.23
Expired	(228.5)	30.05
Forfeited	(38.0)	26.39
Issued and Outstanding, December 31, 2020	**1,566.2**	**22.62**
Expired	**(237.9)**	**22.55**
Issued and Outstanding, March 31, 2021	**1,328.3**	**22.64**

There were no options exercised during 2020 or during the three months ended March 31, 2021.

There were no stock options granted during 2021 and the Company has not applied to the TSX or sought the approval from shareholders required to make future grants of stock options under the Stock Option Plan. The following assumptions were used to determine the fair value of stock options granted by the Company during 2020.

	December 31, 2020
Risk-free interest rate	1.61%
Dividend yield	5.12%
Expected volatility rate based on historical volatility	31%
Forfeiture rate	6.4%
Expected life	5 years
Weighted average grant price	$15.23
Fair value per option on grant date	$2.50

The following table summarizes information regarding stock options outstanding at March 31, 2021:

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-$17.67	**823,502**	**3.09**	**16.87**	**413,046**	**17.19**	**3.11**
$32.03-$32.06	**504,842**	**1.31**	**32.05**	**504,842**	**32.05**	**8.00**

The following table summarizes information regarding stock options outstanding at December 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-$22.55	1,061,365	2.59	18.14	403,858	20.54	3.22
$32.03-$32.06	504,842	1.56	32.05	398,552	32.04	8.00

For the three months ended March 31, 2021, administrative expense includes $0.2 million (March 31, 2020 - $0.3 million) of compensation costs related to stock options.

B) PERFORMANCE SHARE UNITS

PSUs granted to officers prior to December 31, 2020 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 Company may make an election to settle vested PSUs granted prior to December 31, 2020 with either a cash payment equal to the five-day weighted average trading price for the common shares multiplied by the number of vested PSUs or issue the number of common shares. For PSU grants on January 1, 2021, a new long-term incentive plan was adopted so that PSUs granted subsequent to December 31, 2020 may only be settled with a cash payment, and not common shares, equal to the five-day weighted average trading price for the common shares multiplied by the number of vested PSUs. PSUs vest following the completion of a three-year performance period provided the officer remains actively employed with the Company on the vesting date and certain performance criteria are met.

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 PSUs granted subsequent to 2018, 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:

Outstanding PSUs (thousands of units)	As at March 31, 2021	As at December 31, 2020
Issued and Outstanding, Beginning of Period	**655.4**	515.7
Granted	**361.0**	241.5
Vested	**-**	(127.8)
Expired	**(142.5)**	-
Units, in lieu of dividends	**3.9**	26.0
Issued and Outstanding, End of Period	**877.8**	655.4

During the three months ended March 31, 2021, the 2018 PSU grant expired and the cash payout was $nil (March 31, 2020 - $1.0 million).

For the three months ended March 31, 2021, the Company recorded a compensation expense of $1.7 million (March 31, 2020 - $0.3 million recovery) related to outstanding PSUs. The market common share price used in the PSU fair value calculation at March 31, 2021 was $13.55 (March 31, 2020 - $7.43). The remaining weighted average life is 1.9 years.

C) RESTRICTED SHARE UNITS

RSUs granted to eligible employees prior to December 31, 2020 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 Company may make an election to settle vested RSUs granted prior to December 31, 2020 with either a cash payment equal to the five-day weighted average trading price for the common shares multiplied by the number of vested RSUs or issue the number of common shares. For RSU grants on January 1, 2021, a new long-term incentive plan was adopted so that RSUs granted subsequent to December 31, 2020 may only be settled with a cash payment, and not common shares, equal to the five-day weighted average trading price for the common shares multiplied by the number of vested RSUs. RSUs vest evenly over a three-year period, provided the employee remains actively employed with the Company on the vesting date.

The following table summarizes information related to the RSUs:

Outstanding RSUs (thousands of units)	**As at March 31, 2021**	**As at December 31, 2020**
Issued and Outstanding, Beginning of Period	**138.1**	117.1
Granted	**114.0**	80.5
Vested	**(60.1)**	(51.0)
Forfeited	**(0.2)**	(13.4)
Units, in lieu of dividends	**1.0**	4.9
Issued and Outstanding, End of Period	**192.8**	138.1

During the three months ended March 31, 2021, the RSU cash payout was $0.7 million (March 31, 2020 - $0.7 million).

For the three months ended March 31, 2021, the Company recorded compensation expense of $0.5 million (March 31, 2020 - $0.2 million recovery) related to outstanding RSUs. The market common share price used in the RSU fair value calculation at March 31, 2021 was $13.55 (March 31, 2020 - $7.43). The remaining weighted average life is 1.5 years.

D) OFFICER DEFERRED SHARE UNITS

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.

ODSUs are settled in a cash payment equal to the five-day weighted average trading price for the common shares multiplied by the number of settled ODSUs, as further described below. ODSUs vest evenly over a three-year period, provided the employee or officer remains actively employed with the Company on the vesting date. ODSUs are not paid and/or settled until such time as the officer ceases to be an employee of the Company.

The following table summarizes information related to the ODSUs:

Outstanding ODSUs (thousands of units)	**As at March 31, 2021**	**As at December 31, 2020**
Issued and Outstanding, Beginning of Period	**41.9**	-
Granted	**120.3**	40.3
Units, in lieu of dividends	**0.8**	1.6
Issued and Outstanding, End of Period	**163.0**	41.9

For the three months ended March 31, 2021, the Company recorded compensation expense of $0.4 million (March 31, 2020 - $0.1 million) related to outstanding ODSUs. The market common share price used in the ODSU fair value calculation at March 31, 2021 was $13.55 (March 31, 2020 - $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, 2021, the majority of the directors elected to receive their annual Board and Committee retainers and fees in the form of DSUs.

DSUs are settled in a cash payment equal to the five-day weighted average trading price for the common shares multiplied by the number of settled DSUs, as further described below. DSUs are fully vested as of the grant date. DSUs are not paid and/or settled until such time as the director ceases to be a director of the Company.

The following table summarizes information related to the DSUs:

Outstanding DSUs (thousands of units)	**As at March 31, 2021**	**As at December 31, 2020**
Issued and Outstanding, Beginning of Period	**255.7**	174.5
Granted	**109.9**	71.1
Units, in lieu of dividends	**1.6**	10.1
Issued and Outstanding, End of Period	**367.2**	255.7

For the three months ended March 31, 2021, the Company recorded a compensation expense of $2.4 million (March 31, 2020 - $0.7 million recovery) related to outstanding DSUs. The market common share price used in the DSU fair value calculation at March 31, 2021 was $13.55 (March 31, 2020 - $7.43).

11. 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.

	Three months ended March 31			
Royalty Production Revenue by Product		**2021**		**2020**
Crude oil	**$**	**36.5**	$	33.0
NGL		**7.5**		7.0
Natural gas		**12.7**		9.1
		56.7		49.1
Other Revenue				
Lease rental income	**$**	**0.7**	$	0.7
Bonus consideration		**1.4**		2.4
Other income		**0.7**		0.5
		2.8		3.6
Total Revenue	**$**	**59.5**	$	52.7

	Three months ended March 31			
Revenues by Classification		**2021**		**2020**
Lessor Interests on Fee Lands	**$**	**35.1**	$	30.2
GORR Interests		**21.6**		18.9
Royalty production revenue		**56.7**		49.1
Other revenue		**2.8**		3.6
Total Revenue	**$**	**59.5**	$	52.7

At March 31, 2021, receivables from contracts with customers, which are included in accounts receivable and accrued royalty revenue, totaled $36.1 million (March 31, 2020 - $20.9 million). For the three months ended March 31, 2021, the Company recorded $2.6 million (March 31, 2020 - $6.4 million) of royalty production 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.

12. *Administrative Expenses*

		Three months ended March 31			
			2021		**2020**
Salaries and benefits		**$**	**3.0**	$	3.3
Share-based compensation (recovery)	*(Note 10)*		**5.2**		(0.8)
Office expense			**0.7**		0.7
Public company expense			**0.7**		0.6
Information technology and other			**0.6**		0.7
Administrative Expenses		**$**	**10.2**	$	4.5

13. *Income Taxes*

	Three months ended March 31			
		2021		**2020**
Current tax expense (recovery)	**$**	**3.5**	$	(2.4)
Deferred tax expense		**1.1**		8.1
Income Tax Expense	**$**	**4.6**	$	5.7

14. 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 6), 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, 2021	As at December 31, 2020
Shareholders' equity	**$ 2,345.6**	$ 2,341.5
Working capital (deficiency)	**(57.2)**	(42.0)

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, the effect of COVID-19 on global crude oil demand, along with the uncertainty of crude oil prices, has made the preparation of financial forecasts challenging. As a result, there may be adverse changes in cash flows, working capital or debt levels that are currently unforeseen. At March 31, 2021, the Company had a working capital deficiency of $57.2 million, an increase from $42.0 million at December 31, 2020, primarily as a result of the acquisition of Fee lands, Lessor Interests, GORR Interests, and seismic during the period. Refer to Notes 4 and 5. The Company's working capital deficiency includes $5.0 million (December 31, 2020 - $2.6 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. Refer to Note 10.

15. Financial Instruments and Risk Management

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of accounts receivable and accrued royalty 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. Due to the COVID-19 global health crisis, crude oil demand remains lower than pre-pandemic levels. Although crude oil pricing has improved, primarily as a result of certain global oil participants producing in compliance with supply agreements, continued global economic uncertainty means the Company remains subject to increased commodity price risk. The Company does not hedge its commodity price risk.

Interest Rate Risk

The Company is exposed to interest rate risk on its credit facility. Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. Bank debt bears interest at a floating market rate with applicable variable margins.

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. 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 in certain cases, has put a letter of credit in place with the producer.

As at March 31, 2021, 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 royalty 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, including financial forecasting; however, the effect of COVID-19 on global crude oil demand and the uncertainty of crude oil prices have made the preparation of financial forecasts 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 of $114.0 million at March 31, 2021. Refer to Note 6.

The timing of expected cash outflows relating to bank debt of $61.0 million, accounts payable and accrued liabilities of $22.8 million, income tax payable of $3.8 million and dividend payable of $14.5 million is less than one year. Included in accounts payable and accrued liabilities is $5.0 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.

16. Supplementary Information

NET CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended March 31	
	2021	**2020**
Source (use) of cash:		
Accounts receivable and accrued royalty revenue	**$ (17.0)**	$ 6.0
Prepaids	**(0.2)**	0.1
Accounts payable and accrued liabilities	**7.2**	11.3
Income tax payable (receivable)	**2.3**	(7.9)
Changes in non-cash working capital	**$ (7.7)**	$ 9.5
Related to operating activities	**(4.0)**	9.5
Related to investing activities	**(3.4)**	-
Related to financing activities	**(0.3)**	-
Changes in non-cash working capital	**$ (7.7)**	$ 9.5

SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended March 31	
	2021	**2020**
Taxes paid	**$ 1.6**	$ 5.5
Taxes received	**0.4**	-
Interest paid	**0.5**	0.3

Corporate Information

BOARD OF DIRECTORS

James M. Estey(1)(2)
P. Jane Gavan(3)
Margaret A. McKenzie(3)
Andrew M. Phillips
Robert Robotti(4)
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
Pamela P. Kazeil, Vice President Finance & Chief Financial Officer
Cameron M. Proctor, Chief Operating Officer

AUDITORS

KPMG LLP

BANKERS

Toronto-Dominion Bank

TORONTO STOCK EXCHANGE TRADING SYMBOL

PSK

INDEPENDENT RESERVE EVALUATORS

GLJ 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

CORPORATE OFFICE

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

CONTACT US

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