

# MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED  
MARCH 31, 2023 AND 2022

HIGH MARGINS  
ZERO CAPITAL  
CARBON NEUTRAL

**PRAIRIESKY**  
ROYALTY LTD

TSX | **PSK**

# 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 March 31, 2023 and for the three months ended March 31, 2023 and 2022 ("interim condensed consolidated financial statements") and the audited consolidated financial statements and related notes as at and for the years ended December 31, 2022 and 2021. This MD&A has been prepared as of April 17, 2023.*

*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 and ratios in this document do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-GAAP measures and ratios. Non-GAAP measures and ratios 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 and ratios include Operating Netback, Operating Netback per BOE, Operating Margin, Cash Administrative Expenses, and Cash Administrative Expenses per BOE. Further information can be found in the Non-GAAP Measures and Ratios 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, crude oil, natural gas and natural gas liquids ("NGL") conversions, currency and references to PrairieSky.**

*Cover: Carbon neutral refers to Scope 1 and Scope 2 emissions. For more information, review our PWC Assurance Statement located in the "Responsibility" section of our website at [www.prairiesky.com](http://www.prairiesky.com).*

## Financial and Operational Results

(millions, except per share or as otherwise noted)	Three months ended March 31	
	2023	2022
<b>FINANCIAL</b>		
Revenues	\$ 126.1	\$ 139.9
Funds from Operations	86.3	105.0
Per Share - Basic and Diluted <sup>(1)</sup>	0.36	0.44
Net Earnings	56.8	63.9
Per Share - Basic and Diluted <sup>(1)</sup>	0.24	0.27
Dividends Declared <sup>(2)</sup>	57.3	28.7
Per Share	0.24	0.12
Acquisitions	5.4	6.3
Net Debt <sup>(3)</sup>	292.4	568.9
Shares Outstanding		
Shares Outstanding at Period End	238.9	238.8
Weighted Average - Basic	238.9	238.8
Weighted Average - Diluted	238.9	239.0
<b>OPERATIONAL</b>		
<b>Royalty Production Volumes</b>		
Crude Oil (bbls/d)	12,212	11,188
NGL (bbls/d)	2,664	2,621
Natural Gas (MMcf/d)	59.6	60.5
Royalty Production (BOE/d) <sup>(4)</sup>	24,809	23,892
<b>Realized Pricing</b>		
Crude Oil (\$/bbl)	76.25	97.99
NGL (\$/bbl)	46.71	55.66
Natural Gas (\$/Mcf)	4.05	4.20
Total (\$/BOE) <sup>(4)</sup>	52.31	62.64
<b>Operating Netback per BOE<sup>(5)</sup></b>	<b>43.80</b>	56.97
<b>Funds from Operations per BOE</b>	<b>38.65</b>	48.83
<b>Oil Price Benchmarks</b>		
West Texas Intermediate (WTI) (US\$/bbl)	76.13	94.29
Edmonton Light Sweet (\$/bbl)	99.04	115.66
Western Canadian Select (WCS) crude oil differential to WTI (US\$/bbl)	(24.78)	(14.53)
<b>Natural Gas Price Benchmark</b>		
AECO Monthly Index (\$/Mcf)	4.34	4.59
AECO Daily Index (\$/Mcf)	3.22	4.74
Foreign Exchange Rate (US\$/CAD\$)	0.7397	0.7842

- (1) Net Earnings and Funds from Operations per Share are calculated using the weighted average number of basic and diluted common shares outstanding.  
(2) A dividend of \$0.24 per common share was declared on March 13, 2023. The dividend was paid on April 14, 2023 to shareholders of record as at March 31, 2023.  
(3) See Note 14 "Capital Management" in the interim condensed consolidated financial statements and the section "Capital Management" contained within this MD&A.  
(4) See "Conversions of Natural Gas to BOE".  
(5) Operating Netback per BOE is defined under the Non-GAAP Measures and Ratios section in this MD&A.

## Results Overview

### HIGHLIGHTS

Highlights of PrairieSky's financial results for the three months ended March 31, 2023 ("Q1 2023") as compared to the three months ended March 31, 2022 ("Q1 2022") include:

- During Q1 2023, royalty production averaged 24,809 BOE per day (60% liquids), 4% higher than Q1 2022 royalty production volumes of 23,892 BOE per day (58% liquids), comprised of:
  - Average crude oil royalty production volumes of 12,212 barrels per day, a 9% increase over Q1 2022;
  - Average NGL royalty production volumes of 2,664 barrels per day, up 2% over Q1 2022; and
  - Average natural gas royalty production volumes of 59.6 MMcf per day which remained flat with Q1 2022.
- Revenues totaled \$126.1 million in Q1 2023, a 10% decrease from Q1 2022 revenues of \$139.9 million and consisted of \$116.8 million of royalty production revenue, \$1.1 million of lease rental income, \$5.5 million of bonus consideration and \$2.7 million of other income.
- Q1 2023 funds from operations totaled \$86.3 million (\$0.36 per share basic and diluted).
- Dividends declared of \$57.3 million (\$0.24 per share) in Q1 2023 as compared to \$28.7 million (\$0.12 per common share in Q1 2022, reflecting a 100% increase in PrairieSky's dividend).

## PRAIRIESKY'S 2023 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. Oil demand and benchmark pricing remain strong but the potential for volatility remains due to uncertainty around the continuing Russia-Ukraine conflict, inventory levels, sanctions and price caps on Russian output, changes in policy of oil producing countries including the Organization of the Petroleum Exporting Countries (OPEC), and inflation and recessionary concerns. Canadian natural gas pricing has been variable partially as a result of weather, maintenance and other factors impacting gathering, processing and transportation systems, including pipeline takeaway capacity. Third-party operators were active across Western Canada and on PrairieSky's lands throughout the first quarter of 2023 and are expected to remain active throughout the remainder of 2023. PrairieSky management continues to monitor commodity prices, industry activity levels and third-party anticipated capital expenditures for 2023 and beyond given the risk of a global economic recession as well as inflation. PrairieSky remains insulated from many direct inflationary pressures as we have no capital program or field operating costs, provided however, that we may be impacted indirectly as third-party operators review and adjust their capital programs to respond to incremental costs, or as inflationary pressures impact the economic returns achievable on certain projects. Although PrairieSky has no operational control over third-party capital expenditures, making it difficult to predict activity levels and the timing thereof, our expansive royalty land position provides diversification of exposure to producers and plays across Western Canada.

## PrairieSky's Strategy

The Company's objective is to generate significant cash flow and returns 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 (as defined herein); (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, drilling commitments and other terms and conditions); (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 is focused on creating per share value for shareholders, including but not limited to distributing cash flow to shareholders in the form of dividends and opportunistic share repurchases and cancellations over time.

PrairieSky remains disciplined 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 has consistently maintained a strong balance sheet and employs a conservative capital structure.

## **Business Overview**

### PRAIRIESKY ROYALTY

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PrairieSky's asset base includes a geologically and geographically diverse portfolio of Fee Lands (as defined herein) that encompasses approximately 9.7 million acres with petroleum and/or natural gas rights and approximately 8.6 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 lands prospective for petroleum, natural gas, NGL and other minerals located predominantly in Central and Southern Alberta and throughout 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) crude oil and natural gas overriding royalty interests, gross overriding royalty interests, net profit interests and production payments ("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 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, NGL or natural gas; rather, third-party development of the Royalty Properties provides the Company with royalty production revenues as crude oil, NGL and natural gas are produced from such properties. 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.

Petroleum and natural gas royalty structures are typically linked directly to production volumes from the Royalty Properties, 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, geopolitical risks and international conflicts, including the Russia-Ukraine conflict, and macroeconomic events. The Company is able to mitigate some of these risks to the extent that there is a diversity of third parties actively exploring and developing the Royalty Properties, with a balanced production mix of natural gas, crude oil, and NGL, and by maintaining a low-cost business with a conservative and sustainable capital structure.

At March 31, 2023, PrairieSky receives royalty production revenue from over 43,000 wells and receives payments from approximately 320 different industry payors. The Company receives approximately 75% of its monthly revenue from 32 payors. Royalties are calculated on a fixed percentage, step or sliding scale formula. Some royalty agreements allow for the deduction of certain handling, processing, and transportation costs.

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 is not responsible for 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 expenses 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, financing expense and corporate income taxes.

## Royalty Production

### Royalty Production Volumes

(Average daily)	Three months ended March 31	
	2023	2022
Crude Oil (bbls/d)	12,212	11,188
NGL (bbls/d)	2,664	2,621
Natural Gas (MMcf/d)	59.6	60.5
Total Royalty Production (BOE/d)	24,809	23,892

PrairieSky's average daily royalty production volumes for Q1 2023 were comprised of 49% crude oil, 11% NGL and 40% natural gas as compared to Q1 2022 when the production volume split was 47% crude oil, 11% NGL and 42% 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. 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 of amounts 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 production 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, 2023

Royalty production volumes totaled 24,809 BOE per day in Q1 2023, an increase of 4% over Q1 2022 royalty production volumes of 23,892 BOE per day. The increase is primarily related to active third-party drilling on PrairieSky's Royalty Properties which has driven organic royalty production growth. A further breakdown by product is as follows:

- Average crude oil royalty production volumes for Q1 2023 of 12,212 barrels per day have increased 9% from 11,188 barrels per day reported in Q1 2022 as a result of organic growth from new wells on stream more than offsetting the combined impact of natural declines, operational downtime at one of the thermal oil projects where we have a royalty in March 2023 and lower sliding scale volumes as a result of lower WTI benchmark pricing.
- Average NGL royalty production volumes for Q1 2023 of 2,664 barrels per day increased 2% from 2,621 barrels per day reported in Q1 2022 as production volumes from new wells on stream offset natural declines.
- Average natural gas royalty production volumes for Q1 2023 of 59.6 MMcf per day decreased 1% from 60.5 MMcf per day reported in Q1 2022 as royalty production volumes from new wells on stream were offset by natural declines and the negative impact of certain production in British Columbia being temporarily shut in due to transportation constraints.



# Financial Results

## Operating Results

	Three months ended March 31, 2023		Three months ended March 31, 2022	
	(\$ millions)	(\$/BOE) <sup>(2)</sup>	(\$ millions)	(\$/BOE) <sup>(2)</sup>
Royalty Production Revenue	\$ 116.8	\$ 52.31	\$ 134.7	\$ 62.64
Production and Mineral Taxes	(1.8)	(0.81)	(1.9)	(0.88)
Cash Administrative Expenses <sup>(1)</sup>	(17.2)	(7.70)	(10.3)	(4.79)
Operating Netback <sup>(1)</sup>	\$ 97.8	\$ 43.80	\$ 122.5	\$ 56.97
Operating Margin <sup>(1)</sup>	84%	84%	91%	91%

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

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

The Q1 2023 operating netback of \$97.8 million (\$43.80 per BOE) has decreased 20% from \$122.5 million (\$56.97 per BOE) in Q1 2022 due to the impact of lower benchmark prices on realized commodity pricing partially offset by higher average royalty production volumes. Changes in administrative expenses and production and mineral taxes are further discussed below.

## Revenue

(\$ millions)	Three months ended March 31	
Royalty Production Revenue by Product	2023	2022
Crude Oil	\$ 83.8	\$ 98.7
NGL	11.2	13.1
Natural Gas	21.8	22.9
	116.8	134.7
<b>Other Revenue</b>		
Lease Rental Income	\$ 1.1	\$ 1.2
Bonus Consideration	5.5	3.5
Other Income	2.7	0.5
	9.3	5.2
<b>Revenues</b>	\$ 126.1	\$ 139.9

(\$ millions)	Three months ended March 31	
Revenues by Classification	2023	2022
Lessor Interests on Fee Lands	\$ 75.4	\$ 88.5
GORR Interests	41.4	46.2
Royalty Production Revenue	116.8	134.7
Other Revenue	9.3	5.2
<b>Revenues</b>	\$ 126.1	\$ 139.9

	Three months ended March 31	
Pricing	2023	2022
Benchmark		
WTI (US\$/bbl)	76.13	94.29
Edmonton Light Sweet (\$/bbl)	99.04	115.66
WCS Differential to WTI (US\$/bbl)	(24.78)	(14.53)
AECO Monthly Index (\$/Mcf)	4.34	4.59
AECO Daily Index (\$/Mcf)	3.22	4.74
Foreign Exchange Rate (US\$/CAD\$)	0.7397	0.7842

Realized Pricing	Three months ended March 31	
	2023	2022
Crude Oil (\$/bbl)	76.25	97.99
NGL (\$/bbl)	46.71	55.66
Natural Gas (\$/Mcf)	4.05	4.20
<b>Total (\$/BOE)</b>	<b>52.31</b>	<b>62.64</b>

The Company's average royalty rate for all producing wells on the Royalty Properties was approximately 6.0% in both Q1 2023 and Q1 2022. During Q1 2023, royalty production revenue was \$116.8 million compared to \$134.7 million for the same quarter in 2022, a decrease of 13% primarily as a result of lower WTI and AECO benchmark pricing as well as wider heavy oil differentials, which are further detailed below, partially offset by increased oil and NGL royalty production volumes and the positive impacts of a weaker Canadian dollar relative to the US dollar on realized pricing.

During Q1 2023, revenue from Lessor Interests on Fee Lands was \$75.4 million or 65% of total royalty production revenue. Revenue from GORR Interests was \$41.4 million or 35% of total royalty production revenue for the same period. In the prior year comparative period, \$88.5 million or 66% of total royalty production revenue was generated from Lessor Interests on Fee Lands and \$46.2 million or 34% from GORR Interests. In addition to royalty production revenue from Lessor Interests, all lease rental income and bonus consideration are generated from Fee Lands.

During Q1 2023, the Company averaged realized oil pricing of \$76.25 per barrel, NGL pricing of \$46.71 per barrel and natural gas pricing of \$4.05 per Mcf as compared to Q1 2022 when the Company averaged realized oil pricing of \$97.99 per barrel, NGL pricing of \$55.66 per barrel and natural gas pricing of \$4.20 per Mcf. Q1 2023 realized oil pricing decreased 22% from Q1 2022 primarily due to decreased WTI crude oil benchmark pricing which averaged US\$76.13 per barrel, 19% lower than Q1 2022, and a wider heavy oil differential averaging US\$24.78 per barrel in Q1 2023 as compared to US\$14.53 per barrel in Q1 2022. The negative pricing impact was partially offset by a stronger US dollar relative to the Canadian dollar. Q1 2023 realized NGL pricing decreased 16% from Q1 2022 due to lower benchmark pricing. Realized natural gas prices decreased 4% in Q1 2023 as compared to Q1 2022 due to lower average monthly and daily AECO benchmark pricing.

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 be related to 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 of outstanding amounts is certain. For Q1 2023, compliance recoveries totaled \$2.6 million (Q1 2022 - \$1.5 million). Compliance recoveries are included in royalty production revenue for the period.

Other revenue consisted primarily of lease bonus consideration and lease rentals from new and historical leasing arrangements on Fee Lands. Lease rental income for Q1 2023 was \$1.1 million (Q1 2022 - \$1.2 million). Bonus consideration revenue for Q1 2023 was \$5.5 million (Q1 2022 - \$3.5 million), as industry looked to increase their drilling inventory. 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 totaled \$2.7 million for Q1 2023 (Q1 2022 - \$0.5 million) with the increase over the prior year comparative period primarily related to potash royalties, water disposal income and seismic data licensing to third-party operators.



## Administrative Expenses

(\$ millions)	Three months ended March 31	
	2023	2022
Salaries and Benefits	\$ 3.8	\$ 3.2
Share-Based Compensation	4.6	9.7
Office Expense	0.9	0.8
Public Company Expense	0.9	0.7
Information Technology and Other	0.7	0.6
<b>Total Administrative Expenses</b>	<b>\$ 10.9</b>	<b>\$ 15.0</b>
<b>Administrative Expenses per BOE<sup>(1)</sup></b>	<b>\$ 4.88</b>	<b>\$ 6.98</b>
Cash Administrative Expenses <sup>(2)</sup>	\$ 17.2	\$ 10.3
<b>Cash Administrative Expenses per BOE<sup>(1)(2)</sup></b>	<b>\$ 7.70</b>	<b>\$ 4.79</b>

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

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

PrairieSky is committed to controlling costs, finding efficiencies and optimizing technology across the business. Administrative expenses for Q1 2023 were \$4.88 per BOE (Q1 2022 - \$6.98 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 for directors ("DSUs") are impacted by the closing share price at period end and as such, are subject to variability. The market common share price used in the fair value calculation of share-based compensation at March 31, 2023 was \$21.40, as compared to \$17.29 at March 31, 2022. Share-based compensation expense is calculated based on the change in the share price in the period and the number of outstanding share-based awards at period end, with an estimate of the ultimate performance multiplier applied to PSUs. The share price decreased 1% during Q1 2023 compared to an increase of 27% during Q1 2022 which resulted in a lower expense recorded in Q1 2023 partially offset by an increase in the number of units outstanding, related to ODSUs and DSUs which are not paid out until the officer or director leaves the Company. Company payouts related to RSUs and PSUs are discussed below.

Cash administrative expenses for Q1 2023 were \$7.70 per BOE, a 61% increase from Q1 2022 cash administrative expenses of \$4.79 per BOE as a result of increased annual company payouts related to share-based compensation. When cash share-based payments are made, there is an increase in cash administrative expenses in the period. Company payouts related to share-based compensation for Q1 2023 were \$10.9 million (Q1 2022 - \$5.0 million). The increase was primarily related to a higher performance multiplier applied to executive-held PSUs due to strong share price and corporate performance. For more information, see the Company's Information Circular and Proxy Statement dated February 27, 2023 which is available on the Company's website at [www.prairiesky.com](http://www.prairiesky.com).

(\$ millions)	Three months ended March 31	
	2023	2022
Share-Based Compensation		
PSU Expense	2.6	5.2
RSU Expense	0.4	0.6
ODSU Expense	0.4	0.8
DSU Expense	1.2	3.1
<b>Share-Based Compensation Expense</b>	<b>\$ 4.6</b>	<b>\$ 9.7</b>

Share-based compensation expense is impacted by the closing share price at period end as discussed above. Total outstanding units and options from all employee, officer, and director incentive plans that can be settled in common shares are 113,575, a de minimus percent of total common shares outstanding at March 31, 2023.

## Production and Mineral Taxes

(\$ millions, except per BOE amounts)	Three months ended March 31	
	2023	2022
Production and Mineral Taxes	\$ 1.8	\$ 1.9
\$/BOE <sup>(1)</sup>	\$ 0.81	\$ 0.88

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

Production and mineral taxes are levied on an annual basis. In Alberta, the Freehold Mineral Tax is calculated with a formula based on price and production volumes in the province; whereas, in Saskatchewan there is an acreage tax based on a flat per acre amount for non-Crown lands. For Q1 2023, production and mineral taxes were 1.5% of royalty production revenue compared to 1.4% in Q1 2022. Production and mineral taxes are based on an annual estimate which can result in variances from quarter to quarter based on commodity prices, changes in royalty production volumes and incremental acreage acquired.

## Depletion, Depreciation and Amortization ("DD&A")

(\$ millions, except per BOE amounts)	Three months ended March 31	
	2023	2022
Depletion, Depreciation and Amortization	\$ 34.0	\$ 34.2
\$/BOE <sup>(1)</sup>	\$ 15.23	\$ 15.90

(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 slightly lower in Q1 2023 than in Q1 2022 primarily due to increased reserves at Q1 2023 and increased production for the quarter. 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	
	2023	2022
Exploration and Evaluation Expense	\$ 0.5	\$ 0.7
\$/BOE <sup>(1)</sup>	\$ 0.22	\$ 0.33

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

During Q1 2023, \$0.5 million (Q1 2022 - \$0.7 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 \$4.5 million in Q1 2023 (Q1 2022 - \$4.7 million) has decreased slightly from the prior year comparative period primarily as a result of a lower bank debt balance partially offset by increased interest rates. The effective interest rate for Q1 2023 was 6.5% as compared to 2.9% for Q1 2022.

## Income Tax

(\$ millions)	Three months ended March 31	
	2023	2022
Current Tax Expense	\$ 16.5	\$ 18.0
Deferred Tax Expense	1.1	1.5
<b>Income Tax Expense</b>	<b>\$ 17.6</b>	<b>\$ 19.5</b>

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 decrease in the current income tax expense for Q1 2023 compared to Q1 2022 reflects lower taxable income as a result of lower royalty production revenue as previously discussed.

## Net Earnings

Net earnings for Q1 2023 were \$56.8 million (\$0.24 per share, basic and diluted) as compared to net earnings of \$63.9 million (\$0.27 per share, basic and diluted) in Q1 2022. Net earnings for Q1 2023 were lower than Q1 2022 as a result of the decrease in royalty production revenue, as previously described, more than offsetting the decreases in administrative expense, production and mineral taxes, DD&A expense, E&E expense, finance expense and income tax expense.

## Acquisitions

During Q1 2023, the Company completed acquisitions of royalty interests on non-producing properties totaling \$5.4 million which were recorded in E&E assets. During Q1 2022, acquisitions totaled \$6.3 million consisting of \$1.1 million of royalty interests on producing properties recorded in royalty assets and \$5.2 million of royalty interests on non-producing properties recorded in E&E assets.

## Liquidity and Capital Resources

(\$ millions)	Three months ended March 31	
	2023	2022
Net Cash From (Used In)		
Operating Activities	\$ 17.2	\$ 87.1
Investing Activities	(5.4)	(6.3)
Financing Activities	(11.8)	(80.8)
<b>Change in Cash and Cash Equivalents</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ -</b>	<b>\$ -</b>

## Operating Activities

Net cash from operating activities for Q1 2023 was \$17.2 million, as compared to \$87.1 for Q1 2022. The decrease was primarily as a result of the payment of income taxes payable of \$86.5 million which was recorded in accounts payable and accrued liabilities at December 31, 2022, as well as lower royalty production revenue as previously discussed. 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, repay bank debt, repurchase common shares under the Company's Normal Course Issuer Bid ("NCIB"), and 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 2023 was \$86.3 million, a decrease of 18% from \$105.0 million

in Q1 2022 due to the impacts of lower WTI and AECO benchmark pricing on PrairieSky's royalty production revenue partially offset by higher oil and NGL royalty production volumes.

### *Investing Activities*

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For Q1 2023, cash used in investing activities was \$5.4 million (Q1 2022 - \$6.3 million) and included E&E asset acquisitions (Q1 2022 included royalty and E&E asset acquisitions) as outlined in the "Acquisitions" section of this MD&A.

### *Financing Activities*

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For Q1 2023, cash used in financing activities was \$11.8 million (Q1 2022 - \$80.8 million) as a result of dividends paid on common shares and draws on bank debt.

Dividends paid in Q1 2023 were \$57.3 million (Q1 2022 - \$21.5 million). There were no common shares repurchased in Q1 2023 or Q1 2022.

Since the initial public offering in May 2014 (the "IPO"), PrairieSky has declared \$1,389.1 million in dividends to shareholders. Since inception of the NCIB in 2016, PrairieSky has purchased for cancellation 16.7 million common shares at an average cost of \$14.77 per share for total consideration of \$246.4 million.

### **Changes in Net Debt**

During Q1 2023, the Company generated funds from operations of \$86.3 million, declared dividends of \$57.3 million, and made royalty acquisitions for cash consideration of \$5.4 million. The Company had net debt of \$292.4 million at March 31, 2023, down from \$315.1 million at December 31, 2022, as funds from operations in excess of dividends paid of \$57.3 million and acquisitions of \$5.4 million were primarily used to decrease net debt during the quarter. Long-term bank debt at March 31, 2023, net of unamortized debt issuance costs of \$0.7 million, was \$264.2 million.

At March 31, 2023, accounts receivable and accrued royalty 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 month following production; 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. Accounts payable also included \$11.8 million (December 31, 2022 - \$10.6 million) related to the liability for vested cash-settled DSUs for Board members which only become payable when a director is no longer a member of the Board. Working capital also included the dividend payable of \$57.3 million (December 31, 2022 - \$57.3 million), which will be paid in the second quarter of 2023.

### **Bank Debt**

At March 31, 2023, the Company had a \$700 million extendible revolving credit facility (the "Revolving Facility"), with a permitted increase to \$775 million, subject to lender consent, and a \$25 million extendible operating credit facility (the "Operating Facility", and together with the Revolving Facility, the "Sustainable Credit Facility"), with a syndicate of Canadian banks. At March 31, 2023, \$264.9 million was drawn on the Sustainable Credit Facility (December 31, 2022 - \$219.2 million). The Sustainable Credit Facility may be extended on an annual basis, subject to certain requirements and has a maturity date of February 28, 2025. The effective interest rate for Q1 2023 was 6.5% (Q1 2022 - 2.9%).

During Q1 2023 and Q1 2022, there were no debt issuance costs incurred. Debt issuance costs incurred historically have been netted against the long-term debt and are being amortized over the remaining term. For Q1 2023, total amortization of debt issuance costs was \$0.2 million (Q1 2022 - \$0.2 million).

The Sustainable 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 Sustainable Credit Facility includes a sustainability-linked pricing mechanism which may reduce or increase borrowing costs by a maximum of 5 basis points based on the Company's environmental, social and governance ("ESG") performance, determined annually by a third-party ESG rating agency. PrairieSky's bank debt pricing was reduced by the full 5 basis points effective February 1, 2022 due to its improved third-party ESG rating. PrairieSky's ESG performance was re-evaluated in early 2023 and the full 5 basis points pricing reduction was maintained. The next re-evaluation will occur in early 2024. The Sustainable Credit Facility is unsecured and does not have a borrowing base restriction.

The Sustainable 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, 2023. As at March 31, 2023, the Company was in compliance with all covenants provided for in the lending agreement and forecasts compliance with all covenants for at least the next 12 months.

The following table provides a listing of the key financial covenants as at March 31, 2023:

Covenant Description <sup>(1)</sup>	Ratio	March 31, 2023
Adjusted Consolidated Senior Debt to EBITDA	Maximum 3.5:1	0.45
Adjusted Consolidated Total Debt to EBITDA	Maximum 4.0:1	0.45
Adjusted Consolidated Total Debt to Capitalization	Maximum 55%	9%

(1) Capitalized terms are as defined in the Sustainable Credit Facility agreement.

The covenants noted above are subject to specific definitions in the Sustainable Credit Facility agreement.

## Dividends and Dividend Policy

PrairieSky pays dividends to shareholders at the discretion of the Board of Directors. Dividends declared were \$57.3 million or \$0.24 per share for Q1 2023.

The Board of Directors determines the dividend rate after considering expected commodity prices, foreign exchange rates, royalty production volumes, economic conditions, income taxes, long-term debt levels 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, 2023 and April 17, 2023, PrairieSky had 238.9 million common shares outstanding (December 31, 2022 - 238.9 million). As at March 31, 2023 there were 0.1 million outstanding stock options (December 31, 2022 - 0.4 million) with a weighted average exercise price of \$15.35.

## Capital Management

The Company's objective when managing its capital structure is to maintain financial flexibility to meet the financial requirements for its business and future business development activities, as well as to distribute cash to shareholders in the form of dividends and to repurchase shares for cancellation. As a royalty company, PrairieSky does not incur capital expenditures for crude oil and natural gas development, which differentiates its cost structure from producers and enhances its financial flexibility.

The Company's capital structure is comprised of long-term debt, working capital, and shareholders' equity. The Company's capital structure is managed by taking into account operating activities, dividends paid to shareholders, common share repurchases, income taxes, liquidity available under the Sustainable 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, realized commodity prices and the resultant royalty production revenues, as well as the costs incurred by the Company.

The Company defines capitalization as net debt plus shareholders' equity. The net debt to capitalization ratio is a financial leverage measure that shows the portion of capital relating to debt. The Company continues to maintain a low net debt to capitalization ratio at March 31, 2023 of 10% (December 31, 2022 - 10%) which reflects its manageable debt levels and lower financial risk.

(\$ millions)	As at March 31, 2023	As at December 31, 2022
<b>Shareholders' Equity</b>	\$ 2,767.8	\$ 2,768.3
Long-Term Debt	264.2	\$ 218.3
Working Capital Deficiency (Working Capital)	28.2	96.8
<b>Net Debt</b>	<b>292.4</b>	<b>\$ 315.1</b>
<b>Capitalization</b>	<b>\$ 3,060.2</b>	<b>\$ 3,083.4</b>
<b>Net Debt to Capitalization</b>	<b>10%</b>	<b>10%</b>

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. The preparation of financial forecasts requires management to make assumptions and estimates which may prove incorrect over time. As a result, there may be adverse changes in cash flows, working capital or debt levels that are currently unforeseen.

On May 19, 2022 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 16,963,000 common shares over a twelve-month period which commenced on May 26, 2022 and expires no later than May 25, 2023. 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. The actual number of common shares that may be purchased will be determined by the Company based on current and forecasted funds from operations, the annual dividend and the level of bank debt.

PrairieSky will apply to extend its NCIB for an additional one-year period. Under the renewed NCIB, and subject to prior approval of the TSX, PrairieSky intends to request the repurchase limit be set at 10% of the public float at the applicable time. The NCIB has been approved by the Company's board of directors; however, it is subject to acceptance by the TSX and, if accepted, will be made in accordance with the applicable rules and policies of the TSX and applicable securities laws. The NCIB is expected to commence shortly after regulatory approvals are obtained and upon expiry of the current program on May 25, 2023. Common shares may be repurchased under the program over a period of up to one year.

There were no shares purchased for cancellation during Q1 2023 or Q1 2022.



# Risk Management

## Financial Risks

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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 its future royalty production 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, geopolitical factors and the Canadian to US dollar exchange rate. The Company does not hedge its commodity price risk.

### Interest Rate Risk

The Company is exposed to interest rate risk in connection with the Sustainable 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. Assuming all other variables held constant for Q1 2023, a 1% change (plus or minus) in the interest rate would have resulted in a corresponding change to net earnings before taxes of \$0.6 million. 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. The Company's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables.

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, 2023, 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 these obligations. At March 31, 2023, the Company had net debt of \$292.4 million, a decrease of 7% from \$315.1 million at December 31, 2022 as Q1 2023 funds from operations in excess of dividends paid of \$57.3 million and acquisitions of \$5.4 million were primarily used to decrease the working capital deficit through payment of income taxes payable during the quarter. The Company also has access to incremental funding options through its Sustainable Credit Facility with a maturity date of February 28, 2025. At March 31, 2023, the Company has unused capacity under its Sustainable Credit Facility of up to \$460.1 million. In addition, the Sustainable Credit Facility has a permitted increase to \$800 million from \$725 million with lender consent.

The Company's royalty production volumes and resultant revenues with high operating netbacks provide significant liquidity. The primary uses of funds are administrative expenses, production and mineral taxes, finance expenses, income taxes, dividends, debt repayment the repurchase and cancellation of PrairieSky's common shares, and acquisitions. The Company's dividend, common share repurchases, and capital acquisitions are discretionary.

The timing of expected cash outflows relating to accounts payable and accrued liabilities of \$83.9 million and the dividend payable of \$57.3 million is less than one year. In addition, accounts payable and accrued liabilities includes \$11.8 million related to vested cash-settled DSUs held by Board members which only become payable when a director is no longer a member of the Board.

### *Operational and Business Risks*

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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 impact of geopolitical factors, and specifically those related to the Russia-Ukraine conflict;
- Access to transportation, including pipelines or other methods, for bringing crude oil, NGL 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, including the risk that third-party lenders may reduce their borrowings to the oil and gas industry;
- The impacts of increased interest rates and inflationary pressures on third-party exploration and development activity;
- 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, and/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;
- Increased borrowing costs due to increased lending rates from prime rate increases, negative changes to financial metrics evaluated under the Sustainable Credit Facility financial covenants and/or decreased ESG performance as determined by a third-party rating agency; and
- Variability of dividends based on PrairieSky's financial performance and/or market conditions.

Through the Company's Enterprise Risk Management processes, 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;
- We maintain a conservative and sustainable capital structure; and
- We maintain levels of liability insurance that meet or exceed industry standards.

### *Environmental and Climate Change Risks*

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The Canadian petroleum 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, as well as judicial scrutiny. 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 and the protection of water resources. 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 licenses 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 with a high degree of certainty. Lessees and third-party operations may be impacted by environmental risks including both acute and chronic physical risks such as extreme weather and/or long-term shifts in weather patterns. In addition, lessees' and third-party operators may be impacted by transition risks including regulatory, market, reputational, technological and legal risks. The impact of these risks on lessees, third-party operators and PrairieSky continues to evolve. PrairieSky continually monitors these risks as part of its Enterprise Risk Management process. PrairieSky's Board of Directors is responsible for Enterprise Risk Management and management is responsible for implementing mitigating strategies regarding these risks. These mitigating strategies are described above under Operational and Business Risks.

Emissions, carbon and other regulations impacting climate and climate-related matters are constantly evolving. With respect to ESG and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed National Instrument 51-107 *Disclosure of Climate-related Matters* ("NI 51-107"). The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been

quantified. The timing of implementation of NI 51-107, and the final form and content of the legislation is uncertain.

Additional specific risk factors related to the environment and climate change, including a discussion on physical and transition risks, are included in PrairieSky's Annual Information Form dated February 6, 2023 and readers are encouraged to review such material, as well as PrairieSky's Sustainability Report which is located on our website at [www.prairiesky.com](http://www.prairiesky.com).

#### *FURTHER INFORMATION ON RISK FACTORS AND INDUSTRY CONDITIONS*

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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 6, 2023, which is available under PrairieSky's SEDAR profile at [www.sedar.com](http://www.sedar.com) and at [www.prairiesky.com](http://www.prairiesky.com).

## **Accounting Judgments, Estimates and Accounting Policies**

### *Accounting Judgments and Estimates*

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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 2022 Annual MD&A, have not changed during the current period. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

## **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, 2023, 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 months beginning on January 1, 2023 and ending on March 31, 2023.

## Summary of Quarterly Results and Trends

(\$ millions, unless otherwise noted)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
<b>FINANCIAL</b>								
Crude Oil	\$ 83.8	\$ 98.9	\$ 107.6	\$ 135.6	\$ 98.7	\$ 61.3	\$ 50.3	\$ 42.9
NGL	11.2	13.5	14.2	17.8	13.1	10.7	10.1	8.3
Natural Gas	21.8	32.4	24.2	36.8	22.9	22.2	15.6	13.7
Royalty Production Revenue	116.8	144.8	146.0	190.2	134.7	94.2	76.0	64.9
Other Revenue	9.3	5.8	8.7	7.9	5.2	6.4	2.1	4.9
Total Revenues	126.1	150.6	154.7	198.1	139.9	100.6	78.1	69.8
Funds from Operations	86.3	119.5	123.5	159.6	105.0	101.8	66.2	56.6
Per Share - Basic and Diluted <sup>(1)</sup>	0.36	0.50	0.52	0.67	0.44	0.45	0.30	0.25
Net Earnings	56.8	67.3	76.2	110.1	63.9	43.7	33.7	27.5
Per Share - Basic and Diluted <sup>(1)</sup>	0.24	0.28	0.32	0.46	0.27	0.19	0.15	0.12
Dividends Declared <sup>(2)</sup>	57.3	57.3	28.7	28.7	28.7	21.5	20.0	14.5
Per Share	0.24	0.24	0.12	0.12	0.12	0.09	0.09	0.065
Common Share Repurchases	-	-	-	-	-	1.5	8.0	13.2
Net Debt	292.4	315.1	364.2	453.9	568.9	635.0	187.7	35.7
<b>OPERATIONAL</b>								
<b>Production Volumes</b>								
Crude Oil (bbls/d)	12,212	12,166	11,376	12,220	11,188	8,311	7,535	7,028
NGL (bbls/d)	2,664	2,681	2,660	2,772	2,621	2,029	2,603	2,612
Natural Gas (MMcf/d)	59.6	66.4	65.7	66.0	60.5	60.0	58.4	60.5
Total (BOE/d) <sup>(3)</sup>	24,809	25,914	24,986	25,992	23,892	20,340	19,871	19,723

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

(2) A dividend of \$0.24 per common share was declared on March 13, 2023. The dividend was paid on April 14, 2023 to shareholders of record on March 31, 2023.

(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 and geopolitical risk. 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. Benchmark pricing for crude oil and NGL has improved through 2021 and 2022 and most significantly in Q2 2022, partially compounded by actual and potential supply disruption due to the ongoing Russia-Ukraine conflict which continues to impact pricing.
- Natural gas prices are influenced by many variables including weather conditions, industrial demand, and North American natural gas inventories. In Western Canada, transportation constraints, including pipeline maintenance, may further impact natural gas prices. Natural gas benchmark pricing improved through 2021 and the first half of 2022, and weakened in the second half 2022 extending into 2023 due to the variables discussed above.
- Royalty production volumes can be influenced by various factors, including the extent of exploration and development activity by third parties on the Royalty Properties, operational downtime and transportation constraints, the timing and amount of capital expenditures, the expertise and financial resources of third-party lessees, acquisitions of producing properties, weather 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 DD&A, 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 dividend is set by the Board of Directors by considering forecasted funds from operations. In Q3 2021, the quarterly dividend was increased to \$0.09 per share for the September 30, 2021 dividend record date. Dividends declared in Q4 2021 were higher due to the increase in the number of common shares outstanding post the bought deal financing in December 2021. In Q1 2022, the Company increased the dividend by 33% to \$0.48 per share on an annualized basis (\$0.12 per share on a quarterly basis). In Q4 2022, the Company increased the dividend by 100% to \$0.96 per share on an annualized basis (\$0.24 per share on a quarterly basis).
- The Company has declared \$256.7 million in dividends to shareholders and has repurchased 1.7 million common shares for \$22.7 million over the past eight quarters.
- Net debt has decreased since Q4 2021 as funds from operations have been used primarily to repay bank debt incurred on the acquisition of royalty properties from Heritage Royalty. Working capital fluctuations are primarily a result of changes in commodity prices affecting the royalty production revenue accrual, changes in the Company's share price affecting share-based compensation accruals, changes in amounts payable for income tax and changes in the dividend payable.

## ***Non-GAAP Measures and Ratios***

Certain measures and ratios in this MD&A do not have any standardized meaning as prescribed by IFRS and therefore, are considered non-GAAP measures and ratios. These measures and ratios may not be comparable to similar measures and ratios presented by other issuers. These measures and ratios 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 and ratios include operating netback, operating netback per BOE, operating margin, cash administrative expenses, and cash administrative expenses per BOE. Management's use of these measures and ratios are discussed further below.

"Operating Netback" represents the cash margin for products sold. Operating netback is calculated as royalty production revenue less production and mineral taxes and cash 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. Refer to the Operating Results table in this MD&A document for a summary of operating netback calculations.

"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 royalty 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 is 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 operating netback calculations.

"Operating Margin" represents operating netback as a percentage of royalty revenue. Management uses this measure to demonstrate the comparability between the Company and production and exploration companies in the crude oil and natural gas industry as it shows net revenue generation from operations. Refer to the Operating Results table in this MD&A document for a summary of operating netback calculations.

"Cash Administrative Expenses" represent administrative expenses excluding the volatility and fluctuations in share-based compensation expense for RSUs, PSUs, ODSUs, 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 in the period, plus any actual cash payments made under the Share Unit Award Incentive Plan, ODSU Plan or DSU Plan. Management believes cash administrative expense is 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 between periods.

### *Cash Administrative Expenses*

The following table presents the computation of Cash Administrative Expenses:

(\$ millions)	Three months ended March 31	
	2023	2022
Total Administrative Expenses	\$ 10.9	\$ 15.0
Share-Based Compensation Expense	(4.6)	(9.7)
Cash Payments Made - Share Unit Award Incentive Plan	10.9	5.0
<b>Cash Administrative Expenses</b>	<b>\$ 17.2</b>	<b>\$ 10.3</b>

## **Advisory**

### *FORWARD-LOOKING STATEMENTS*

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at April 17, 2023 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 macroeconomic events, including the Russia-Ukraine conflict, on future commodity prices, royalty production volumes, revenues and cash flow;
- PrairieSky's business and growth strategy and anticipated sources of future income;
- PrairieSky's expectation that third party operators will remain active on PrairieSky's lands throughout the remainder of 2023;
- PrairieSky's dividend policy and its intention to focus on repaying bank debt and distributing cash flow to shareholders in the form of dividends and opportunistic share repurchases and cancellations over time, which intention could change with little or no notice;
- PrairieSky's NCIB and specifically the volume and value of future repurchases under the current NCIB or future NCIBs based on current and forecast funds from operations, the annual dividend and level of bank debt;
- The expectation that PrairieSky will apply to the TSX to extend its NCIB for an additional one-year period and the TSX will approve such NCIB;
- 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;
- The impact of compliance activities and recoveries, which vary quarterly;
- The impact of bonus consideration, which varies quarterly;
- The expectation that the Company will be in compliance with financial covenants under the Sustainable Credit Facility for the next twelve months;
- The Company's estimate regarding third-party operators' approach to budgets and capital spending;
- The ability to mitigate the risks of fluctuations in commodity prices and production volumes, including but not limited to the impacts from a slowdown in exploration and development activity;

- Average royalty production volume contributions from the Royalty Properties including the impact of exploration and development activity, acquisitions and/or production declines;
- The impact of increased interest rates and inflationary pressures on third-party exploration and development activity;
- The expectation that the majority of the Company's proved and probable reserves included in the reserve report prepared as of December 31, 2022, should be realized prior to a full transition away from carbon-based energy;
- The 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 the development of the Royalty Properties; and
- Changes to the legislative and regulatory frameworks, including changes to environmental legislation, in the jurisdictions in which the Company carries on a business.

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 and the impacts of pipeline maintenance on production flows, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, including physical and acute environmental risks, regulation, changes in tax or other legislation, increased interest rates and inflation, political and geopolitical instability, including the Russia-Ukraine conflict, 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; the impact of inflation on capital budgets and operating costs for lessees and working interest owners on the Royalty Properties; 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 Royalty 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 global political unrest, and specifically the Russia-Ukraine conflict, on global crude oil and natural gas supply and pricing; and PrairieSky's ability to execute the volume and/or value of purchases as described under the NCIB or future NCIBs, if approved by the TSX.

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 achievements 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*

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Additional information about PrairieSky, including the unaudited interim condensed consolidated financial statements as at March 31, 2023 and for the three months ended March 31, 2023 and 2022, the 2022 audited annual consolidated financial statements and notes thereto, together with management's discussion and analysis, and PrairieSky's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or PrairieSky's website at [www.prairiesky.com](http://www.prairiesky.com).