

# MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED *DECEMBER 31, 2021 AND 2020*

**HIGH MARGINS**  
**ZERO CAPITAL**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis ("MD&A") for PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") should be read in conjunction with the audited annual consolidated financial statements as at and for the years ended December 31, 2021 and 2020 ("financial statements"). This MD&A has been prepared as of February 7, 2022.*

*The financial statements and comparative information have been prepared in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS") 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.***

## Financial and Operational Results

(millions, except per share or as otherwise noted)	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
<b>FINANCIAL</b>				
Revenues	\$ 100.6	\$ 47.0	\$ 308.0	\$ 171.4
Funds from Operations	101.8	41.1	273.4	146.8
Per Share - basic and diluted <sup>(1)</sup>	0.45	0.18	1.22	0.64
Net Earnings	43.7	14.1	123.3	31.7
Per Share - basic and diluted <sup>(1)</sup>	0.19	0.06	0.55	0.14
Dividends Declared <sup>(2)</sup>	21.5	13.4	70.5	86.1
Per Share	0.09	0.06	0.31	0.375
Acquisitions- including non-cash consideration	745.3	2.7	987.1	9.4
Net Debt	635.0	42.0	635.0	42.0
Common Share Repurchases	1.5	-	22.7	90.9
Shares Outstanding				
Shares outstanding at period end	238.8	223.3	238.8	223.3
Weighted average - basic	224.8	223.3	223.3	229.6
Weighted average - diluted	225.3	223.8	223.8	230.1
<b>OPERATIONAL</b>				
<b>Royalty Production Volumes</b>				
Crude Oil (bbls/d)	8,311	7,313	7,541	7,124
NGL (bbls/d)	2,029	2,285	2,436	2,571
Natural Gas (MMcf/d)	60.0	58.1	59.1	60.1
Royalty Production (BOE/d) <sup>(3)</sup>	20,340	19,281	19,827	19,712
<b>Realized Pricing</b>				
Crude Oil (\$/bbl)	80.13	41.59	69.38	38.05
NGL (\$/bbl)	57.27	26.44	41.14	22.93
Natural Gas (\$/Mcf)	4.04	1.87	2.98	1.61
Total (\$/BOE) <sup>(3)</sup>	50.34	24.58	40.32	21.65
<b>Operating Netback per BOE<sup>(4)</sup></b>	<b>46.76</b>	22.10	<b>37.03</b>	18.81
<b>Funds from Operations per BOE</b>	<b>54.40</b>	23.17	<b>37.78</b>	20.35
<b>Oil Price Benchmarks</b>				
West Texas Intermediate (WTI) (US\$/bbl)	77.19	42.66	67.92	39.40
Edmonton Light Sweet (\$/bbl)	93.30	50.24	80.23	45.34
Western Canadian Select (WCS) crude oil differential to WTI (US\$/bbl)	(14.64)	(9.30)	(13.04)	(12.60)
<b>Natural Gas Price Benchmark</b>				
AECO monthly index (\$/Mcf)	4.94	2.76	3.56	2.24
AECO daily index (\$/Mcf)	4.66	2.64	3.62	2.23
Foreign Exchange Rate (US\$/CAD\$)	0.7909	0.7694	0.7973	0.7468

(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 \$0.09 per common share was declared on December 8, 2021. The dividend was paid on January 17, 2022 to shareholders of record as at December 31, 2021.

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

(4) 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 December 31, 2021 ("Q4 2021") include:

- Revenues totaled \$100.6 million, consisting of \$94.2 million of royalty production revenue, \$2.0 million of lease rental income, \$3.9 million of bonus consideration and \$0.5 million of other income.
- Funds from operations totaled \$101.8 million (\$0.45 per share basic and diluted).
- Royalty production averaged 20,340 BOE per day (51% liquids) consisting of average crude oil royalty production volumes of 8,311 barrels per day, average NGL royalty production volumes of 2,029 barrels per day and average natural gas royalty production volumes of 60.0 MMcf per day.
- Dividends declared of \$21.5 million (\$0.09 per share).
- On December 15, 2021, the Company closed the acquisition of over 1.9 million acres of royalty lands throughout Alberta, Saskatchewan and Manitoba, including over 1.7 million acres of fee simple mineral title lands and extensive seismic assets for total cash consideration of \$728.0 million (the "Heritage Acquisition"). The Heritage Acquisition had an effective date of December 31, 2021.
- Concurrent with the closing of the Heritage Acquisition, the Company completed a bought deal prospectus offering of 17.2 million common shares, inclusive of 2.2 million common shares issued pursuant to the exercise in full of the over-allotment option granted to the underwriters, at a price of \$13.40 per common share for aggregate gross proceeds of \$230.1 million and net proceeds, after fees and expenses, of \$220.1 million.
- On December 15, 2021, the Company expanded the Sustainable Credit Facility (as defined herein) to \$725 million, with a permitted increase to \$800 million. The Sustainable Credit Facility had previously been expanded in September 2021 to \$425 million and the maturity date was extended to February 28, 2025, at that time.

Highlights of PrairieSky's financial results for the year ended December 31, 2021 ("YE 2021") include:

- Revenues totaled \$308.0 million, consisting of \$291.8 million of royalty production revenue, \$6.1 million of lease rental income, \$8.3 million of bonus consideration and \$1.8 million of other income.
- Funds from operations totaled \$273.4 million (\$1.22 per share basic and diluted).
- Royalty production averaged 19,827 BOE per day (50% liquids) consisting of average crude oil royalty production volumes of 7,541 barrels per day, average NGL royalty production volumes of 2,436 barrels per day and average natural gas royalty production volumes of 59.1 MMcf per day.
- Dividends declared of \$70.5 million (\$0.31 per share).
- Purchased for cancellation 1,666,800 common shares at a weighted average price of \$13.60 per common share for total consideration of \$22.7 million under the NCIB.
- On February 23, 2021, the Company closed the acquisition of a royalty portfolio for cash consideration of \$45.0 million, before adjustments, consisting of fee simple mineral title and royalty interest lands in Western Canada, and ownership of a seismic database complementary to the Company's existing Royalty Properties as well as these acquired assets.
- On July 19, 2021, the Company closed the acquisition of a gross overriding royalty on lands in the Marten Hills Clearwater area of Alberta (the "Marten Hills Acquisition") for cash consideration of \$155.0 million.

- On August 25, 2021, the Company closed the acquisition of a royalty portfolio consisting of fee simple mineral title and royalty interest lands primarily in Central Alberta for \$34.8 million, before adjustments.

## **PRAIRIESKY'S 2022 OUTLOOK**

Management does not provide guidance. As such, this discussion relates only to general economic conditions experienced by the Company as of the date of this MD&A. The novel coronavirus (COVID-19) pandemic continued to impact the global economy in 2021; however, benchmark pricing for all commodities improved to levels above pre-pandemic commodity pricing which positively impacted third-party producers and, in turn, PrairieSky. The timing of a full economic recovery is challenging to forecast, with the overall outlook on crude oil demand largely dependent on the status of COVID-19 and the spread of variants, vaccine rollouts, changes to social restrictions and businesses resuming regular operations. Benchmark crude oil pricing has positively responded to global participants maintaining production cuts and a global economic recovery and natural gas demand and pricing remain strong, but the potential for volatility remains. Management continues to monitor current commodity prices, currency exchange rates, industry activity levels and third-party anticipated capital expenditures for 2022 and beyond. 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 exposure to producers and plays across Western Canada.

In 2022, PrairieSky will continue the integration of assets acquired in 2021. This will include leasing undeveloped land and incorporating land and accounting information into our existing systems and processes to begin compliance reviews.

## **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); (iii) managing controllable costs; and (iv) selectively pursuing strategic business development opportunities that are relatively low risk to the Company and accretive to shareholders. In the near term, the Company will focus on repaying bank debt and distributing cash flow to shareholders in the form of dividends. Over the longer term, the Company intends to distribute the majority of cash flow to shareholders in the form of dividends and 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. On February 7, 2022, the Company announced that the Board has increased the dividend by 33% to \$0.48 per common share on an annualized basis (\$0.12 per common share on a quarterly basis).

## **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 9.8 million acres with petroleum and/or natural gas rights and approximately 8.5 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 Western Saskatchewan (the "Fee Lands"); (ii) lessor interests in and to leases that are currently issued in respect of certain Fee Lands ("Lessor Interests"); and (iii) 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 risk, and macroeconomic events including, since early 2020, the onset and trajectory of the COVID-19 global pandemic. 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 December 31, 2021, PrairieSky receives royalty production revenue from approximately 43,000 wells and receives payments from approximately 330 different industry payors, including the Heritage Acquisition which was effective December 31, 2021. The Company receives approximately 75% of its monthly revenue from 30 payors. Royalties are calculated on a fixed percentage, step or sliding scale formula. Some royalty agreements allow for the deduction of certain 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 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 December 31		Year ended December 31	
	2021	2020	2021	2020
Crude Oil (bbls/d)	8,311	7,313	7,541	7,124
NGL (bbls/d)	2,029	2,285	2,436	2,571
Natural Gas (MMcf/d)	60.0	58.1	59.1	60.1
Total Royalty Production (BOE/d)	20,340	19,281	19,827	19,712

PrairieSky's average daily royalty production volumes for Q4 2021 were comprised of 41% crude oil, 10% NGL and 49% natural gas as compared to the three months ended December 31, 2020 ("Q4 2020") when the production volume split was 38% crude oil, 12% NGL and 50% natural gas. The average daily royalty production volumes for YE 2021 were comprised of 38% crude oil, 12% NGL and 50% natural gas as compared to the year ended December 31, 2020 ("YE 2020") when the production volume split was 36% crude oil, 13% NGL and 51% natural gas. There is a natural delay between the timing of production and when PrairieSky receives its royalty interest production volumes and revenue from operators. Due to this delay, positive and negative adjustments related to prior periods may be included in PrairieSky's royalty production volumes and/or revenue. PrairieSky's compliance department continually reviews leasing agreements, and royalty calculations and collections related to compliance recoveries result in adjustments to royalty production volumes and royalty revenue related to prior periods. Compliance adjustments are not recorded in the financial statements until amounts are collected.

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.

The Heritage Acquisition was effective December 31, 2021. As such, Q4 2021 and YE 2021 results include only one day of royalty production and royalty revenue from the acquisition.

#### **For the three months ended December 31, 2021**

Crude oil royalty production volumes for Q4 2021 of 8,311 barrels per day have increased 14% from 7,313 barrels per day reported in Q4 2020 as a result of organic growth through third-party drilling activity, incremental production volumes from acquisitions and improved sliding scale royalty volumes with improved WTI benchmark pricing.

NGL royalty production volumes for Q4 2021 of 2,029 barrels per day decreased 11% from 2,285 barrels per day reported in Q4 2020 as incremental production from acquisitions and new wells on stream were more than offset by ethane volume curtailments and natural declines.

Natural gas royalty production volumes for Q4 2021 of 60.0 MMcf per day have increased 3% from 58.1 MMcf per day reported in Q4 2020 as production volumes from new wells on stream, incremental acquisition volumes and increased natural gas due to ethane volume curtailments more than offset natural declines and volume freeze-offs due to extreme cold weather across Western Canada at the end of the year.

#### **For the year ended December 31, 2021**

Crude oil royalty production volumes for YE 2021 of 7,541 barrels per day have increased 6% from 7,124 barrels per day reported in YE 2020. The increase in crude oil royalty production was primarily as a result of the resumption of exploration and development activity by third-party operators and incremental production volumes from acquisitions exceeding natural declines. In addition, higher WTI benchmark pricing positively impacted sliding scale royalty volumes compared to YE 2020.

NGL royalty production volumes for YE 2021 of 2,436 barrels per day have decreased 5% from 2,571 barrels per day reported in YE 2020. Incremental production from new wells, along with acquired production, were offset by natural declines from existing wells and ethane volume curtailments

Natural gas royalty production volumes for YE 2021 of 59.1 MMcf per day were 2% lower than the 60.1 MMcf per day reported in YE 2020. Western Canada was impacted by unseasonably cold weather during Q1 2021 and in late December 2021, leading to volume freeze-offs which, combined with third-party down-time and natural declines, offset new wells on stream and royalty production volumes from acquisitions.

# Financial Results

## Operating Results

	Three months ended December 31, 2021		Three months ended December 31, 2020	
	(\$ millions)	(\$/BOE) <sup>(2)</sup>	(\$ millions)	(\$/BOE) <sup>(2)</sup>
Royalty Production Revenue	\$ 94.2	\$ 50.34	\$ 43.6	\$ 24.58
Production and Mineral Taxes	(1.3)	(0.69)	(0.9)	(0.51)
Cash Administrative Expenses <sup>(1)</sup>	(5.4)	(2.89)	(3.5)	(1.97)
Operating Netback <sup>(1)</sup>	\$ 87.5	\$ 46.76	\$ 39.2	\$ 22.10
Operating Margin <sup>(1)</sup>	93%	93%	90%	90%

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

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

	Year ended December 31, 2021		Year ended December 31, 2020	
	(\$ millions)	(\$/BOE) <sup>(2)</sup>	(\$ millions)	(\$/BOE) <sup>(2)</sup>
Royalty Production Revenue	\$ 291.8	\$ 40.32	\$ 156.2	\$ 21.65
Production and Mineral Taxes	(3.6)	(0.50)	(2.5)	(0.35)
Cash Administrative Expenses <sup>(1)</sup>	(20.2)	(2.79)	(18.0)	(2.49)
Operating Netback <sup>(1)</sup>	\$ 268.0	\$ 37.03	\$ 135.7	\$ 18.81
Operating Margin <sup>(1)</sup>	92%	92%	87%	87%

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

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

The Q4 2021 operating netback of \$87.5 million (\$46.76 per BOE) has increased 123% from \$39.2 million (\$22.10 per BOE) in Q4 2020 primarily as a result of increases in realized commodity pricing combined with higher average production volumes. Changes in administrative expenses and production and mineral taxes are further discussed below.

The YE 2021 operating netback of \$268.0 million (\$37.03 per BOE) has increased 97% from \$135.7 million (\$18.81 per BOE) in YE 2020 as a result of increases in realized commodity pricing combined with higher average production volumes. Changes in administrative expenses and production and mineral taxes are further discussed below.

## Revenues

(\$ millions)	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
<b>Royalty Production Revenue by Product</b>				
Crude Oil	\$ 61.3	\$ 28.0	\$ 191.0	\$ 99.2
NGL	10.7	5.6	36.6	21.6
Natural Gas	22.2	10.0	64.2	35.4
	94.2	43.6	291.8	156.2
<b>Other Revenue</b>				
Lease Rental Income	\$ 2.0	\$ 1.8	\$ 6.1	\$ 5.9
Bonus Consideration	3.9	0.9	8.3	5.8
Other Income	0.5	0.7	1.8	3.5
	6.4	3.4	16.2	15.2
<b>Total Revenues</b>	<b>\$ 100.6</b>	<b>\$ 47.0</b>	<b>\$ 308.0</b>	<b>\$ 171.4</b>

(\$ millions)	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
<b>Revenues by Classification</b>				
Lessor Interests on Fee Lands	\$ 54.3	\$ 28.0	\$ 174.5	\$ 98.5
GORR Interests	39.9	15.6	117.3	57.7
Royalty Production Revenue	94.2	43.6	291.8	156.2
Other Revenue	6.4	3.4	16.2	15.2
<b>Total Revenues</b>	<b>\$ 100.6</b>	<b>\$ 47.0</b>	<b>\$ 308.0</b>	<b>\$ 171.4</b>

<b>Pricing</b>	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Benchmark				
WTI (US\$/bbl)	77.19	42.66	67.92	39.40
Edmonton Light Sweet (\$/bbl)	93.30	50.24	80.23	45.34
WCS Differential to WTI (US\$/bbl)	(14.64)	(9.30)	(13.04)	(12.60)
AECO Monthly Index (\$/Mcf)	4.94	2.76	3.56	2.24
AECO Daily Index (\$/Mcf)	4.66	2.64	3.62	2.23
Foreign Exchange Rate (US\$/CAD\$)	0.7909	0.7694	0.7973	0.7468

Realized Pricing	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Crude Oil (\$/bbl)	80.13	41.59	69.38	38.05
NGL (\$/bbl)	57.27	26.44	41.14	22.93
Natural Gas (\$/Mcf)	4.04	1.87	2.98	1.61
<b>Total (\$/BOE)</b>	<b>50.34</b>	<b>24.58</b>	<b>40.32</b>	<b>21.65</b>

The Company's average royalty rate for all producing wells on the Royalty Properties was approximately 6% in both Q4 2021 and Q4 2020. During Q4 2021, royalty production revenue was \$94.2 million compared to \$43.6 million for the same period in 2020, an increase of 116% as a result of higher average realized pricing, detailed below, and increased royalty production volumes for all products as previously discussed.

During Q4 2021, revenue from Lessor Interests on Fee Lands was \$54.3 million or 58% of total royalty production revenue. Revenue from GORR Interests was \$39.9 million or 42% of total royalty production revenue for the same period. In the comparative period, \$28.0 million or 64% of total royalty production revenue was generated from Lessor Interests on Fee Lands and \$15.6 million or 36% from GORR Interests. The increase in royalty revenue from GORR Interests is primarily due to the Marten Hills Acquisition which

added high value oil royalty production and revenue. In addition to royalty revenue from Lessor Interests, all lease rental income and bonus consideration are generated from Fee Lands.

The Company's average royalty rate for all producing wells on the Royalty Properties was approximately 6% in both YE 2021 and YE 2020. During YE 2021, royalty production revenue was \$291.8 million compared to \$156.2 million for the same period in 2020, an increase of 87% as a result of higher average realized pricing for all products as discussed below.

During YE 2021, revenue from Lessor Interests on Fee Lands was \$174.5 million or 60% of total royalty production revenue. Revenue from GORR Interests was \$117.3 million or 40% of total royalty production revenue for the same period. In the comparative period, \$98.5 million or 63% of total royalty production revenue was generated from Lessor Interests on Fee Lands and \$57.7 million or 37% from GORR Interests.

During Q4 2021, the Company averaged realized crude oil pricing of \$80.13 per barrel, NGL pricing of \$57.27 per barrel and natural gas pricing of \$4.04 per Mcf. The realized pricing on all products increased from Q4 2020 when the Company averaged realized crude oil pricing of \$41.59 per barrel, NGL pricing of \$26.44 per barrel and natural gas pricing of \$1.87 per Mcf. Crude oil WTI benchmark pricing continued to improve in Q4 2021 averaging US\$77.19 per barrel, 81% higher than Q4 2020 as demand has improved and supply constraints have contributed to a more constructive market equilibrium than in 2020. Improved crude oil benchmark pricing and narrowed light oil differentials in Q4 2021 were partially offset by wider heavy oil differentials and a stronger Canadian dollar compared to Q4 2020. Q4 2021 realized NGL pricing increased 117% over Q4 2020 due to improved benchmark pricing and the NGL royalty production split containing less lower value ethane in Q4 2021 due to curtailments. Realized natural gas prices increased 116% in Q4 2021 as compared to Q4 2020 due to strong average monthly and daily AECO and Station 2 benchmark pricing brought on by increased natural gas demand.

YE 2021, the Company averaged realized crude oil pricing of \$69.38 per barrel, NGL pricing of \$41.14 per barrel and natural gas pricing of \$2.98 per Mcf. The realized pricing for all products increased from YE 2020 when the Company averaged realized crude oil pricing of \$38.05 per barrel, NGL pricing of \$22.93 per barrel and natural gas pricing of \$1.61 per Mcf. WTI benchmark pricing for crude oil increased in YE 2021 compared to YE 2020 as a result of the market equilibrium and increased demand noted above. In addition, the light oil differential narrowed in YE 2021 compared to YE 2020 improving realized pricing, partially offset by a wider heavy oil differential and stronger Canadian dollar. YE 2021 realized NGL pricing increased 79% over YE 2020 primarily due to improvements in benchmark pricing and a reduction in lower value ethane royalty volumes due to curtailments. Realized natural gas prices increased 85% in YE 2021 as compared to YE 2020 due to higher utilization of natural gas driving average AECO and Station 2 benchmark pricing higher.

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 received. For Q4 2021 and YE 2021, the Company collected \$1.4 million (Q4 2020 - \$0.8 million) and \$4.2 million (YE 2020 - \$5.8 million) in compliance recoveries. Compliance recoveries are included in royalty production revenue for the period.

Other revenue consisted primarily of lease rental income and lease bonus consideration from new leasing arrangements as well as leases currently issued in respect of certain Fee Lands. Lease rental income for Q4 2021 and YE 2021 was \$2.0 million (Q4 2020 - \$1.8 million) and \$6.1 million (YE 2020 - \$5.9 million), respectively. Bonus consideration revenue for Q4 2021 and YE 2021 was \$3.9 million (Q4 2020 - \$0.9 million) and \$8.3 million (YE 2020 - \$5.8 million), respectively. Both the amount and timing of bonus consideration revenue can vary significantly from quarter to quarter as it relates to the unique circumstances of each transaction. Other income was \$0.5 million for Q4 2021 (Q4 2020 - \$0.7 million) and \$1.8 million for YE 2021 (YE 2020 - \$3.5 million) primarily from the collection of fees under certain lease arrangements. Other income was higher in YE 2020 due to the collection of one-time non-performance fees.

## Administrative Expenses

(\$ millions)	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Salaries and Benefits	\$ 4.0	\$ 2.3	\$ 12.9	\$ 10.5
Share-Based Compensation	4.4	1.4	12.5	2.3
Office Expense	0.7	0.6	3.1	2.4
Public Company Expense	0.3	0.1	1.7	1.4
Information Technology and Other	0.4	0.5	1.8	2.0
Total Administrative Expenses	\$ 9.8	\$ 4.9	\$ 32.0	\$ 18.6
Administrative Expenses per BOE <sup>(1)</sup>	\$ 5.24	\$ 2.76	\$ 4.42	\$ 2.58
Cash Administrative Expenses <sup>(2)</sup>	\$ 5.4	\$ 3.5	\$ 20.2	\$ 18.0
Cash Administrative Expenses per BOE <sup>(1)(2)</sup>	\$ 2.89	\$ 1.97	\$ 2.79	\$ 2.49

(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 continuous improvement, including controlling costs and optimizing technology across the business to generate long-term efficiencies and scalability. Administrative expenses for Q4 2021 and YE 2021 were \$5.24 per BOE (Q4 2020 - \$2.76 per BOE) and \$4.42 per BOE (YE 2020 - \$2.58 per BOE), respectively. 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 December 31, 2021 was \$13.63, as compared to \$10.09 at December 31, 2020. The improved share price along with an increase in the number of units outstanding resulted in an increase in the expense recorded in the periods.

Cash administrative expenses for Q4 2021 were \$2.89 per BOE, a 47% increase from Q4 2020 cash administrative expenses of \$1.97 per BOE partially as a result of the Company accessing the Canadian Emergency Wage Subsidy in Q4 2020 which was put in place to support businesses as a result of COVID-19. The subsidy was collected in Q4 2020 and YE 2020, with an impact of \$0.3 million or \$0.17 per BOE for the Q4 2020 period and \$1.6 million or \$0.22 per BOE for YE 2020. PrairieSky voluntarily withdrew from the Canadian Emergency Wage Subsidy program in January 2021 and has not received any subsidy amounts in 2021. Cash administrative expenses for YE 2021 were \$2.79 per BOE, a 12% increase from YE 2020 cash administrative expenses of \$2.49 per BOE.

Company payouts related to share-based compensation for the entire organization during Q4 2021 were \$nil (Q4 2020 - \$nil) and \$0.7 million during YE 2021 (YE 2020 - \$1.7 million). When cash share-based payments are made, there is an increase in cash administrative expenses in the period. Cash payments decreased in YE 2021 compared to YE 2020 due to lower pricing on the RSU settlement and a \$nil cash settlement amount on certain PSUs held by the three executive officers which expired, unvested, in Q1 2021 due to bottom quartile share price performance over a trailing three-year period compared to a pre-determined peer group. For more information, see the Company's Information Circular and Proxy Statement dated March 3, 2021 which is available on the Company's website at [www.prairiesky.com](http://www.prairiesky.com).

(\$ millions)	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Share-Based Compensation				
Stock Option Expense	\$ 0.1	\$ 0.3	\$ 0.5	\$ 1.1
PSU Expense	3.6	0.2	6.9	0.6
RSU Expense	0.3	0.3	1.3	0.5
ODSU Expense	0.3	0.1	1.2	0.2
DSU Expense (Recovery)	0.1	0.5	2.6	(0.1)
Total Share-Based Compensation Expense	\$ 4.4	\$ 1.4	\$ 12.5	\$ 2.3

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 are less than 1.0% of total common shares outstanding at December 31, 2021.

### Production and Mineral Taxes

(\$ millions, except per BOE amounts)	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Production and Mineral Taxes	\$ 1.3	\$ 0.9	\$ 3.6	\$ 2.5
\$/BOE <sup>(1)</sup>	\$ 0.69	\$ 0.51	\$ 0.50	\$ 0.35

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

Production and mineral taxes are levied on an annual basis. In Alberta, the Alberta 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 from non-Crown lands. For Q4 2021, production and mineral taxes were 1.4% of royalty production revenue compared to 2.1% in Q4 2020. YE 2021, production and mineral taxes totaled 1.2% of royalty production revenue compared to 1.6% in YE 2020. 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 December 31		Year ended December 31	
	2021	2020	2021	2020
Depletion, Depreciation and Amortization	\$ 29.6	\$ 23.2	\$ 101.8	\$ 104.5
\$/BOE <sup>(1)</sup>	\$ 15.82	\$ 13.08	\$ 14.07	\$ 14.48

(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 higher in Q4 2021 than in Q4 2020 due to the acquired royalty assets in Q4 2021 increasing the depletable base at a higher cost per BOE. YE 2021 is lower than YE 2020 as a result of the changes in the reserve balance at December 31, 2020 decreasing the depletion rate for the first three quarters of the year ended December 31, 2021. 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 December 31		Year ended December 31	
	2021	2020	2021	2020
Exploration and Evaluation Expense	\$ 1.5	\$ 1.6	\$ 7.8	\$ 6.5
\$/BOE <sup>(1)</sup>	\$ 0.80	\$ 0.90	\$ 1.08	\$ 0.90

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

During Q4 2021 and YE 2021, \$1.5 million (Q4 2020 - \$1.6 million) and \$7.8 million (YE 2020 - \$6.5 million), respectively, 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 \$3.1 million in Q4 2021 (Q4 2020 - \$0.5 million) and \$5.1 million in YE 2021 (YE 2020 - \$1.5 million) has increased from the prior year comparative periods primarily as a result of the increased interest expense on bank debt used to finance the acquisitions of incremental royalty interests completed during 2021, and fees related to bank debt.

## Income Tax

(\$ millions)	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Current Tax Expense (Recovery)	\$ (12.4)	\$ 1.0	\$ 4.6	\$ 2.7
Deferred Tax Expense	24.0	0.8	29.8	3.4
Income Tax Expense	\$ 11.6	\$ 1.8	\$ 34.4	\$ 6.1

During Q4 2021, the Company recorded a \$12.4 million current tax recovery (Q4 2020 - \$1.0 million current tax expense) and a deferred tax expense of \$24.0 million (Q4 2020 - \$0.8 million) as a result of additional pool deductions available for use in the current taxation year related to the Heritage Acquisition. During YE 2021, the Company recorded a \$4.6 million (YE 2020 - \$2.7 million) current tax expense and a deferred tax expense of \$29.8 million (YE 2020 - \$3.4 million). The Company's effective tax rate differs from PrairieSky's combined Provincial and Federal statutory tax rate of 23.5% primarily as a result of the reversal of the initial difference between the carrying value of net assets transferred and the tax pools acquired on May 27, 2014, for which no deferred tax asset was recognized, partially offset by non-deductible employee-related expenses. In addition, the Company has not recognized taxable temporary differences of \$155.0 million related to the excess of the carrying value of net assets over the tax pools acquired on asset acquisitions that were not a business combination during the year ended December 31, 2021 and were therefore subject to the initial recognition exemption under IAS 12 "Income Taxes".

For the year ended December 31, 2020, the combined current and deferred tax rate expense includes \$1.2 million attributable to the acceleration of the Alberta government's corporate income tax rate reduction to 8% as of July 1, 2020.

The approximate tax pools balances available at year end are:

(millions)	Year ended December 31, 2021	Year ended December 31, 2020
Canadian oil and gas property expense ("COGPE")	\$ 1,742.4	\$ 1,165.8
Canadian development expense ("CDE")	-	0.1
Undepreciated capital cost ("UCC")	0.3	0.4
Share issue costs	7.9	2.4
	\$ 1,750.6	\$ 1,168.7

## Net Earnings

Net earnings for Q4 2021 was \$43.7 million (\$0.19 per share, basic and diluted) and net earnings for YE 2021 was \$123.3 million (\$0.55 per share, basic and diluted). Net earnings for Q4 2020 were \$14.1 million (\$0.06 per share, basic and diluted) and net earnings for YE 2020 were \$31.7 million (\$0.14 per share, basic and diluted). Net earnings for both periods in 2021 were higher than 2020 as a result of the increase in royalty production revenues previously described more than offsetting the increases in administrative expenses and income tax expense.

## Acquisitions

During Q4 2021, the Company completed acquisitions totaling \$745.3 million (Q4 2020 - \$2.7 million) comprised of \$379.3 million of producing assets included in royalty assets (Q4 2020 - \$2.5 million) and \$366.0 million of E&E assets (Q4 2020 - \$0.2 million), consisting of royalty interests on non-producing properties and seismic. Acquisitions in Q4 2021 included the Heritage Acquisition of 1.9 million acres of royalty lands throughout Alberta, Saskatchewan and Manitoba, including over 1.7 million acres of fee simple mineral title lands and complementary seismic assets.

YE 2021, the Company completed acquisitions totaling \$987.1 million (YE 2020 - \$9.4 million) comprised of \$459.8 million of producing properties included in royalty assets (YE 2020 - \$7.2 million) and \$527.3 million (YE 2020 - \$2.2 million) of E&E assets, consisting of royalty interests on non-producing properties and seismic. In addition to the Heritage Acquisition described above, in YE 2021 the Company completed the Marten Hills Acquisition, as well as the acquisitions of a portfolio of fee simple mineral title and other royalty interests located primarily in Central Alberta and a portfolio of fee simple mineral title and GORR Interests, along with seismic, across Western Canada.

## Liquidity and Capital Resources

(\$ millions)	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Net Cash From (Used In)				
Operating Activities	\$ 82.1	\$ 39.5	\$ 252.0	\$ 152.3
Investing Activities	(743.8)	(1.9)	(986.4)	(8.6)
Financing Activities	661.7	(37.6)	734.4	(143.7)
<b>Change in Cash and Cash Equivalents</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## Operating Activities

Net cash from operating activities for Q4 2021 and YE 2021 was \$82.1 million and \$252.0 million, respectively, as compared to \$39.5 million and \$152.3 million for the comparable periods in 2020. 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 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 Q4 2021 and YE 2021 was \$101.8 million and \$273.4 million, respectively, an increase of 148% from \$41.1 million in Q4 2020 and an increase of 86% from \$146.8 million in YE 2020 primarily due to the increase in benchmark commodity pricing for all products and reduced current income tax due to the \$12.4 million current tax recovery recognized in Q4 2021 as previously discussed.

(\$ millions)	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Funds from Operations	\$ 101.8	\$ 41.1	\$ 273.4	\$ 146.8
Funds from Operations as a % of Total Revenues	101%	87%	89%	86%

## *Investing Activities.*

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For Q4 2021 and YE 2021, cash used in investing activities was \$743.8 million (Q4 2020 - \$1.9 million) and \$986.4 million (YE 2020 - \$8.6 million), respectively, and included royalty and E&E asset acquisitions as outlined in the "Acquisitions" section of this MD&A.

## *Financing Activities*

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For Q4 2021 and YE 2021, cash from financing activities was \$661.7 million (Q4 2020 - cash used in financing activities was \$37.6 million) and \$734.4 million (Q4 2020 - cash used in financing activities was \$143.7 million), respectively, due to bank debt draws in 2021 to fund the acquisitions as noted above, offset by dividends and share repurchases and cancellations. Concurrent with the closing of the Heritage Acquisition, the Company completed a bought deal prospectus offering of 17.2 million common shares, inclusive of 2.2 million common shares issued pursuant to the exercise in full of the over-allotment option granted to the underwriters, at a price of \$13.40 per common share for aggregate gross proceeds of \$230.1 million and net proceeds, after fees and expenses, of \$220.1 million.

Dividends paid in Q4 2021 were \$20.0 million (Q4 2020 - \$13.4 million) and \$62.4 million for YE 2021 (YE 2020 - \$87.8 million), respectively. In addition, the Company repurchased \$1.5 million in common shares under the NCIB in Q4 2021 (Q4 2020 - \$nil) and \$22.7 million in YE 2021 (YE 2020 - \$90.9 million) as described below.

Since the initial public offering in May 2014 (the "IPO"), PrairieSky has declared \$1,188.6 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 YE 2021, the Company has generated funds from operations of \$273.4 million, repurchased and cancelled shares for \$22.7 million, declared dividends of \$70.5 million, and made royalty acquisitions of \$985.6 million. The Company also raised \$220.1 million, net of fees and expenses, through the December bought deal prospectus offering as previously noted. The Company had net debt of \$635.0 million at December 31, 2021, up from \$42.0 million at December 31, 2020, due to the acquisitions discussed above. Long-term bank debt at December 31, 2021, net of unamortized debt issuance costs of \$1.6 million, was \$643.4 million. The bank debt balance has been reclassified to long-term liabilities as a result of extending the Sustainable Credit Facility maturity date to February 28, 2025, as discussed below.

At December 31, 2021, accounts receivable and accrued royalty revenue consisted primarily of accrued revenue related to royalty payments. 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. Working capital included \$5.2 million (December 31, 2020 - \$2.6 million) related to the liability for vested cash-settled DSUs for Board members which may or may not be paid in the next twelve months as amounts only become payable when a director is no longer a member of the Board.

## **Bank Debt**

Concurrent with the closing of the Marten Hills Acquisition on July 19, 2021, the Company expanded its extendible revolving credit facility with a syndicate of Canadian banks to \$200 million from \$150 million with no change to the \$25 million operating facility (both facilities together defined as the "Credit Facility").

On September 29, 2021, the Company expanded the Credit Facility to \$425 million from \$225 million and extended the maturity date from January 30, 2023 to February 28, 2025. In conjunction with the expansion and extension, the Company added a sustainability-linked pricing mechanism as further described below

(the "Sustainable Credit Facility"). In connection with the Heritage Acquisition, the Company further expanded the Sustainable Credit Facility to \$725 million. The Sustainable Credit Facility has a permitted increase to \$800 million, subject to lender consent, and, subject to certain requirements, may be extended on an annual basis. The maturity date of the Sustainable Credit Facility remains February 28, 2025.

At December 31, 2021, \$645.0 million was drawn on the Sustainable Credit Facility (December 31, 2020 - \$42.9 million). The effective interest rate for Q4 2021 and YE 2021 was 2.3% (Q4 2020 - 2.0%) and 2.1% (YE 2020 - 2.2%), respectively.

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. As part of the aforementioned extension, the Company amended the Sustainable Credit Facility to include 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 by a third-party ESG rating agency. The Sustainable Credit Facility is unsecured and does not have a borrowing base restriction.

The Sustainable Credit Facility has three financial covenants, which have remained unchanged, 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. EBITDA for the trailing 12 months has been adjusted for material acquisitions as defined in the Sustainable Credit Facility agreement. All covenants are calculated as at, and for the 12 months ending December 31, 2021. As at December 31, 2021, the Company was compliant with all covenants provided for in the lending agreement and forecasts compliance with covenants for at least the next 12 months.

The following table provides a listing of the key financial covenants as at December 31, 2021:

Covenant Description <sup>(1)</sup>	Ratio	December 31, 2021
Adjusted Consolidated Senior Debt to EBITDA	Maximum 3.5:1	1.9
Adjusted Consolidated Total Debt to EBITDA	Maximum 4.0:1	1.9
Adjusted Consolidated Total Debt to Capitalization	Maximum 55%	20.0%

(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 \$21.5 million or \$0.09 per share for Q4 2021 and \$70.5 million or \$0.31 per share for YE 2021.

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

## Outstanding Share Data

As at December 31, 2021 and February 8, 2022, PrairieSky had 238.8 million common shares outstanding (December 31, 2020 - 223.3 million) and 1.3 million outstanding stock options (December 31, 2020 - 1.6 million) which have a weighted average exercise price of \$22.59, well in excess of the current share price.

## 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 in 2021 of 20% (2020 - 2%) which reflects its manageable debt levels and lower financial risk.

(\$ millions)	Year ended December 31	
	2021	2020
<b>Shareholders' Equity</b>	<b>\$ 2,594.6</b>	<b>\$ 2,341.5</b>
Long-term debt	\$ 643.4	\$ -
Working capital deficiency (working capital)	(8.4)	42.0
<b>Net Debt</b>	<b>\$ 635.0</b>	<b>\$ 42.0</b>
<b>Capitalization</b>	<b>\$ 3,229.6</b>	<b>\$ 2,383.5</b>
<b>Net Debt to Capitalization</b>	<b>20%</b>	<b>2%</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 20, 2021 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 15,135,000 common shares over a twelve-month period which commenced on May 25, 2021 and expires no later than May 24, 2022. 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. At December 31, 2021, 14,325,300 common shares remained available for purchase and cancellation under the current NCIB. The actual number of common shares that may be purchased will be determined by the Company based on current and forecast funds from operations, the annual dividend and the level of bank debt.

During Q4 2021, the Company purchased for cancellation 98,900 common shares (Q4 2020 - nil common shares) at a weighted average price of \$14.90 per common share, including commissions, for total consideration of \$1.5 million. The total cost paid, including commissions and fees, was charged to share capital.

During YE 2021, the Company purchased for cancellation 1,666,800 common shares (YE 2020 - 9,770,691 common shares) at a weighted average price of \$13.60 per common share (YE 2020 - \$9.30 per common share), including commissions, for total consideration of \$22.7 million (YE 2020 - \$90.9 million). The total cost paid, including commissions and fees, was charged to share capital as there was no excess paid over the average carrying value of the common shares purchased and thus \$nil (YE 2020 - \$0.2 million) was charged to the deficit.

## **Commitments**

The Company has in place three royalty acquisition agreements with unrelated parties, all of which expire on or before April 30, 2023. At December 31, 2021, the total remaining commitment under these agreements was \$6.4 million.

## **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 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 the year-ended December 31, 2021, a 1% change (plus or minus) in the interest rate would have resulted in a corresponding change to net earnings before taxes of \$1.3 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 December 31, 2021, 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 December 31, 2021, the Company had net debt of \$635.0 million, an increase from \$42.0 million at December 31, 2020 primarily due to the Heritage Acquisition completed during Q4 2021 and the Marten Hills Acquisition completed during Q3 2021. The Company also has access to incremental funding options through its Sustainable Credit Facility, which was extended and renewed in September 2021 and further expanded in December 2021 with a maturity date of February 28, 2025. At December 31, 2021, the Company has unused capacity under its Sustainable Credit Facility of up to \$80.0 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, 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 \$20.3 million, income taxes payable of \$2.7 million, and the dividend payable of \$21.5 million is less than one year. Included in accounts payable and accrued liabilities is \$5.2 million related to vested cash-settled DSUs held by Board members which may or may not be paid in the next year as the amount only becomes payable when a director is no longer a member of the Board.

## Operational and Business Risks

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

- Volatility in commodity prices and quality differentials as a result of global and North American market forces and/or shifts in the balance between supply and demand for crude oil, NGL, and natural gas, including the impacts of COVID-19 on crude oil demand;
- The timing of the full economic recovery related to the COVID-19 pandemic, including but not limited to the realized effects on the broader economy but also the potential unrealized and unforeseeable impacts which may be highly variable and cannot be predicted with a high degree of certainty;
- 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;
- 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 increase, negative changes to financial metrics evaluated under 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*. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified.

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 7, 2022 and readers are encouraged to review such material, as well as PrairieSky's Responsibility Report which is located on our website at [www.prairiesky.com](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 7, 2022, 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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Management is required to make judgments, estimates, and assumptions through the application of the Company's accounting policies and practices, which have a significant impact on the financial results. A summary of PrairieSky's significant accounting policies can be found in Note 3 to the audited annual consolidated financial statements.

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, vaccination and booster programs are well underway, and economies are opening, the timing of a full economic recovery remains uncertain, partially as a result of the rise in variants of the virus. At the onset of the pandemic, benchmark pricing for crude oil was severely and negatively impacted through excess global supply and deteriorating demand. Over the balance of 2020 and 2021, crude oil pricing has positively responded to global participants maintaining production cuts and improved global demand. Natural gas demand and pricing has also improved in 2021. Improved benchmark pricing has positively impacted the oil and gas industry and PrairieSky but the potential for volatility remains. Management has incorporated the anticipated impacts of COVID-19 and the economic recovery in its estimates and assumptions at period end and continues to monitor current commodity prices, currency exchange rates, industry activity levels and

third-party anticipated capital expenditures for 2022 and beyond. The following discussion outlines the accounting policies and practices involving the use of judgments and estimates that are critical to determining PrairieSky's financial results.

Critical judgments are those judgments made by Management in the process of applying the Company's accounting policies and that have the most significant impact on the amounts recognized in the audited annual consolidated financial statements.

Significant estimates primarily relate to fair value estimates and unsettled transactions and events as at the date of the financial statements and accordingly, actual results could differ from these estimates.

### **Identification of CGUs**

The identification of cash generating units ("CGUs") requires judgement. CGUs are defined as the lowest level of integrated assets for which there are separately identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. The classification of assets and allocation of corporate assets into CGUs requires judgment and interpretation. Factors considered in the classification include how management monitors the entity's operations, how management makes decisions about continuing or disposing of assets and operations, and the nature of the assets.

### **Fair Value Measurements used in Asset Acquisitions and Business Combinations**

Management's judgement is required to determine whether a transaction constitutes a business combination or asset acquisition based on the criteria in IFRS 3, "Business Combinations". Business combinations are accounted for using the acquisition method of accounting and are differentiated from an asset acquisition when business processes are associated with the assets. In 2021, all acquisitions were accounted for as asset acquisitions.

The fair value of royalty assets and E&E assets recognized in a business combination or an asset acquisition, and as determined for fair value less costs of disposal for impairment, are based on market values. The market value of royalty assets is the estimated amount for which royalty assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and with compulsion. The market value of royalty assets are estimated with reference to the cash flow multiples from production of the same or similar assets, or are based on estimates of the discounted future cash flows from proved and probable reserves. The market value of E&E assets are estimated with reference to the market values of current arm's length transactions in comparable locations, or are based on estimates of the discounted future cash flows from undeveloped properties. The assumptions and estimates with respect to determining the fair value of royalty and E&E assets generally include estimates of discounted future cash flows from proved and probable crude oil and natural gas reserves, estimates of future royalty production from undeveloped properties including timing of third-party development, future benchmark commodity prices, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill. Future net earnings can be affected by changes in future DD&A, asset impairment or goodwill impairment. The fair value of assets acquired through asset acquisitions is determined by allocating the purchase price based on the relative fair values.

### **Reserve Estimates, Depletion and Impairments**

Reserves estimates are not recorded in the Company's financial statements, but they do affect net earnings and assets and liabilities through their impact on depreciation, depletion and amortization ("DD&A"), amounts used for impairment calculations, deferred taxes and amounts used to determine fair values of assets acquired through acquisitions and business combinations. By their nature, proved and probable crude oil and natural gas reserves and the future cash flows derived from them are significant estimates, which are subject to measurement uncertainty, and include significant assumptions related to future royalty production from proved and probable crude oil and natural gas reserves and future realized commodity prices. Accordingly,

the impact to amounts reported in the financial statements for future periods could be material. Reserves have been evaluated at December 31, 2021 by the Company's external independent qualified reserves evaluators.

The Company considers the impact of the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels in its assessment of depletion on its oil and gas properties. Depletion of the Company's oil and gas properties is based on proved and probable reserves. The ultimate period in which global energy markets can transition from carbon-based sources to alternative energy is highly uncertain; however, the majority of the Company's proved and probable reserves included in the reserve report prepared as of December 31, 2021, should be realized prior to a full transition away from carbon-based energy. At this time, the Company has not capped its reserve life, the estimated maximum life, for purposes of calculating depletion expense. The Company will continue to monitor its estimates as the energy evolution continues.

Judgment is required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required with respect to the carrying value of royalty assets and E&E assets. Estimation is required in determining internally developed cash flow estimates for undeveloped properties, including the timing of third-party development, as well as determining the discount rate.

The application of the Company's accounting policy to transfer assets from E&E assets to royalty assets or to expense capitalized E&E assets requires management to make certain judgments based on the estimated proved and probable crude oil and natural gas reserves, if any, used in the determination of an area's technical feasibility and commercial viability.

## **Goodwill**

Upon acquisition, goodwill is attributed to the applicable CGU that is expected to benefit from the business combination's synergies. This represents the lowest level that goodwill is monitored for internal management purposes. Subsequent measurement of goodwill is at cost less any accumulated impairments.

Goodwill is assessed for impairment at least annually. Judgment is required to assess when indicators exist, and impairment testing is required more frequently. If the carrying amount for the CGU exceeds the recoverable amount of the CGU, the associated goodwill is written down with an impairment recognized in net earnings. The recoverable amounts are determined annually based on the greater of fair value less costs of disposal or value in use. Goodwill impairments are not reversed.

## **Crude Oil and Natural Gas Revenue Accruals**

The Company follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of royalty revenue and related expenses, which are based on significant assumptions related to royalty production and realized commodity pricing, for the period reported, for which actual results have not yet been received. The Company has no operational control over the Royalty Properties and as a result, the Company uses both historical production information and publicly available production data adjusted pursuant to the terms of the Company's royalty agreements to determine royalty production. Realized commodity prices are based on publicly available benchmark commodity prices, adjusted for quality, location, allowable deductions, or other factors pursuant to the terms of the royalty agreements. These royalty revenue accrual estimates are revised based on actual royalty production volumes and realized commodity prices received in subsequent periods.

## **Share-Based Compensation**

The calculation of share-based compensation includes both judgments and estimates. Judgments include which valuation model is most appropriate to estimate the fair value of awards granted under the Company's Stock Option Plan, as well as the determination of the peer group used to calculate the total shareholder return under the PSU Plan. An estimate is made for certain PSU grants that are subject to a multiple performance criteria methodology at the discretion of the Board of Directors. Based on this assessment, a

range of zero to two times the original PSU grant may be eligible to vest in respect of the three-year trailing period being measured.

Under the Stock Option Plan, the Company uses the Black-Scholes option pricing model which requires that management make estimates for the expected life of the option, the anticipated volatility of the share price over the life of the option, the dividend yield, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. Estimates of forfeiture rates are made through the vesting period for the Company's various long-term incentive plans. Estimates are based on past forfeitures and future expectations and are adjusted for actual forfeitures when stock options or share unit awards are exercised and/or vested. Estimates and assumptions are then used in the valuation model to determine the fair value, including the number of share unit awards that will ultimately vest under the Share Unit Award Incentive Plan for PSUs and RSUs and under the ODSU Plan. Fluctuations in share-based compensation may occur due to changes in the underlying share price, forfeitures or revised management estimates of relevant performance factors for PSUs. Estimates of the total shareholder return for PSUs are made at each period end.

## **Income Taxes**

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in the period of change and future periods. In periods of rate change, the Company estimates the timing of anticipated reversal of the associated deferred income tax liability to determine the appropriate tax rate to apply to temporary differences. Deferred income tax assets are recognized to the extent future recovery is probable in management's judgment. Deferred income tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

## **Control Environment**

The Board, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee meets at least quarterly with the Company's external auditors to review accounting, internal control, financial reporting, and audit matters.

### *Disclosure Controls and Procedures*

Disclosure controls and procedures ("DC&P"), as defined by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim filings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer evaluated the design and operating effectiveness of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's DC&P were designed and operating effectively as at December 31, 2021.

### *Internal Controls over Financial Reporting*

Internal controls over financial reporting ("ICFR") is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. Because of its inherent limitations, ICFR can only provide reasonable, not absolute, assurance that the objective of the control system is met. There were no changes to PrairieSky's ICFR during the period beginning on October 1, 2021 to December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. PrairieSky conducted an evaluation of the design and operating effectiveness of the Company's ICFR as at December 31, 2021

based on the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that as of December 31, 2021, PrairieSky maintained effective ICFR as defined in Canada by NI 52-109.

## Selected Annual Information

(millions, except per share)	2021	2020	2019
Revenues	\$ 308.0	\$ 171.4	\$ 268.4
Net Earnings and Comprehensive Income	123.3	31.7	111.4
Per Share - basic and diluted	0.55	0.14	0.48
Total Assets	3,510.4	2,607.7	2,719.5
Long-term Financial Liabilities	650.9	3.5	3.2
Dividends Declared	70.5	86.1	182.1
Per Share	0.3100	0.3750	0.7800

In the past three years, PrairieSky has operated its business by leasing lands to third-parties for crude oil and natural gas development and third-party operations, managing controllable costs and completing accretive acquisitions which are complementary to PrairieSky's business. Over the three years, fluctuations in realized commodity prices due to changing benchmark prices and widening/narrowing differentials have both positively and negatively impacted the crude oil and natural gas industry and the Company's royalty production revenue. During 2020, the impacts of COVID-19 and the reduction in global oil demand resulted in significantly lower benchmark and realized crude oil pricing. Net earnings have fluctuated primarily due to the changes in revenues as discussed above, as well as the \$25.5 million deferred income tax recovery in 2019 due to the corporate income tax rate reductions enacted by the Alberta provincial government. Total assets increased in 2021 due to \$987.1 million in asset acquisitions completed during the year. Long-term liabilities increased as bank debt was used to finance, in whole and in part, certain acquisitions during the year. Dividends per share are reviewed and set on an annual basis by the Board. The annual dividend was adjusted to \$0.36 per common share, with \$0.09 per common share approved and paid on a quarterly basis, commencing in Q3 2021.

## Summary of Quarterly Results and Trends

(\$ millions, unless otherwise noted)	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
<b>FINANCIAL</b>								
Crude Oil	\$ 33.0	\$ 13.4	\$ 24.8	\$ 28.0	\$ 36.5	\$ 42.9	\$ 50.3	\$ 61.3
NGL	7.0	4.1	4.9	5.6	7.5	8.3	10.1	10.7
Natural Gas	9.1	7.6	8.7	10.0	12.7	13.7	15.6	22.2
Royalty Production Revenue	49.1	25.1	38.4	43.6	56.7	64.9	76.0	94.2
Other Revenue	3.6	3.1	5.1	3.4	2.8	4.9	2.1	6.4
Total Revenues	52.7	28.2	43.5	47.0	59.5	69.8	78.1	100.6
Funds from Operations	46.5	21.3	37.9	41.1	48.8	56.6	66.2	101.8
Per Share - basic and diluted <sup>(1)</sup>	0.20	0.09	0.16	0.18	0.22	0.25	0.30	0.45
Net Earnings (Loss)	8.6	(0.4)	9.4	14.1	18.4	27.5	33.7	43.7
Per Share - basic and diluted <sup>(1)</sup>	0.04	(0.00)	0.04	0.06	0.08	0.12	0.15	0.19
Dividends Declared <sup>(2)</sup>	45.4	13.9	13.4	13.4	14.5	14.5	20.0	21.5
Per Share	0.195	0.06	0.06	0.06	0.065	0.065	0.09	0.09
Common Share Repurchases	5.0	4.1	81.8	-	-	13.2	8.0	1.5
<b>OPERATIONAL</b>								
<b>Production Volumes</b>								
Crude Oil (bbls/d)	8,582	6,035	6,572	7,313	7,278	7,028	7,535	8,311
NGL (bbls/d)	2,945	2,586	2,473	2,285	2,502	2,612	2,603	2,029
Natural Gas (MMcf/d)	63.8	60.3	58.2	58.1	57.6	60.5	58.4	60.0
Total (BOE/d) <sup>(3)</sup>	22,160	18,671	18,745	19,281	19,380	19,723	19,871	20,340

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

(2) A dividend of \$0.09 per common share was declared on December 8, 2021. The dividend was paid on January 17, 2022 to shareholders of record on December 31, 2021.

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

- Quarterly variances in revenues, funds from operations and net earnings are primarily due to fluctuations in realized commodity prices, royalty production volumes, and bonus consideration.
- Crude oil prices are generally determined by global and North American market forces, including supply and demand factors. Changes in the USD-CAD currency exchange rate impact the Company's oil price realization relative to benchmark WTI, which is referenced in US dollars. In Q1 2020, realized commodity prices were negatively impacted by wider differentials for Canadian light and heavy crude oil to WTI due to global crude oil demand and supply imbalances primarily as a result of COVID-19. Differentials narrowed subsequent to Q1 2020 but did not offset the significant decline in WTI benchmark pricing realized throughout 2020. Benchmark pricing for all commodities improved in 2021.
- Natural gas prices are influenced by many variables including weather conditions, industrial demand, and North American natural gas inventories. In Western Canada, transportation constraints may further impact natural gas prices.
- Royalty production volumes can be influenced by various factors, including the extent of exploration and development activity by third parties on the Royalty Properties, the timing and amount of capital expenditures, the expertise and financial resources of third-party lessees, acquisitions of producing properties, 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 depletion, administrative expenses and income taxes. Administrative expenses can vary in a period due to the effect of the change in share price on the Company's share-based compensation plans. In October 2020, the Alberta government accelerated the corporate income tax rate reduction from 10% to 8% effective July 1, 2020 reducing both current and deferred income tax expense.
- The dividend is set by the Board of Directors by considering forecasted funds from operations. Due to global market volatility as a result of COVID-19, the dividend was adjusted to a quarterly dividend commencing in Q2 2020 of \$0.06 per common share. In Q1 2021, the quarterly dividend was increased to \$0.065 per common share with a further increase to \$0.09 per common share for the Q3 2021 dividend record date. Dividends decline marginally as the number of shares outstanding in the quarter is reduced by share repurchases and cancellations under the NCIB. 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.
- The Company has declared \$156.6 million in dividends to shareholders and has repurchased 11.4 million common shares for \$113.6 million over the past eight quarters.

## ***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 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 December 31		Year ended December 31	
	2021	2020	2021	2020
Total Administrative Expenses	\$ 9.8	\$ 4.9	\$ 32.0	\$ 18.6
Share-Based Compensation Expense	(4.4)	(1.4)	(12.5)	(2.3)
Cash Payments Made - Share Unit Award Incentive Plan	-	-	0.7	1.7
Cash Administrative Expenses	\$ 5.4	\$ 3.5	\$ 20.2	\$ 18.0

## Advisory

### FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at February 7, 2022 and contains forward-looking statements that we believe allow readers to better understand our business and prospects. Forward-looking statements contained in this MD&A include our expectations with respect to the following:

- Commodity prices, including supply and demand factors relating to crude oil, natural gas and NGL, and specifically the effect of the COVID-19 pandemic on future royalty production volumes, revenues and cash flow;
- The potential magnitude of impacts from the COVID-19 pandemic, and the global economic recovery including the fact that many potential factors are unforeseeable and cannot be predicted or quantified with any degree of certainty;
- PrairieSky's business and growth strategy and anticipated sources of future income;
- PrairieSky's dividend policy and its intention in the near term to pay its annual dividend and repay debt and to distribute the majority of cash flow as dividends and share repurchases and cancellations over the longer term, which intention could change with little or no notice;
- PrairieSky's NCIB and specifically the volume and value of future repurchases under the NCIB based on current and forecast funds from operations, the annual dividend and level of bank debt;
- 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 production contributions from the Royalty Properties including the impact of exploration and development activity, acquisitions and/or production declines;
- The expectation that the majority of the Company's proved and probable reserves included in the reserve report prepared as of December 31, 2021, should be realized prior to a full transition away from carbon-based energy;
- The expectation that PrairieSky will continue the integration of asset acquired in 2021 in 2022, including leasing undeveloped land and incorporating land and accounting information into existing systems and processes to begin compliance reviews;
- 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;
- Expected future commitments and payments related thereto; 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, the trajectory of the global COVID-19 pandemic, volatility of commodity prices, lack of pipeline capacity, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, including physical and acute environmental risks, regulation, changes in tax or other legislation, political and geopolitical instability, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. In addition, PrairieSky is subject to numerous risks and uncertainties in relation to acquisitions. These risks and uncertainties include risks relating to title to the assets acquired and the potential for disputes to arise with third parties, and limited ability to recover indemnification from such third parties under certain agreements. The foregoing and other risks are described in more detail in PrairieSky's Annual Information Form and in this MD&A under the heading "Risk Management".

With respect to forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things, the ability of the lessees and working interest owners on the Royalty Properties to maintain or increase production and reserves from these properties; the ability and willingness of the lessees and working interest owners on the Royalty Properties to comply with, and PrairieSky to enforce, lease terms and contractual provisions, as applicable, in order to receive payments; the ability of the lessees or working interest owners on the Royalty Properties to operate in a safe, efficient and effective manner; the timely receipt of any required regulatory approvals by lessees or working interest owners on the Royalty Properties; the willingness and financial capability of the lessees and working interest owners to continue to develop and invest additional capital in the Royalty Properties; the ability of the lessees and working interest owners on the Royalty Properties to obtain financing on acceptable terms to fund capital expenditures; field production rates, decline rates and the well performance and characteristics of the Royalty Properties; the ability to replace and increase crude oil, natural gas and NGL reserves and production associated with the Royalty Properties through third-party development and complementary acquisitions; the timing, cost and ability of third parties to access, maintain or expand necessary facilities and/or secure adequate product transportation and storage; the ability of the third-party operators on the Royalty Properties to successfully market their respective petroleum and natural gas products or, for royalty payments taken-in-kind by PrairieSky, the ability of PrairieSky or a third-party marketer to successfully market PrairieSky's in-kind petroleum and natural gas products; surface rights access being granted to third parties on PrairieSky's 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 COVID-19 on global crude oil demand and pricing as well as local and global social and economic conditions; and PrairieSky's ability to execute the volume and/or value of purchases as described under the NCIB or future NCIBs.

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

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

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

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

#### **CONVERSIONS OF NATURAL GAS TO BOE**

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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**

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All information included in this MD&A, and the audited annual 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 2021 audited annual consolidated financial statements and notes thereto, 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).