

**Task Force on  
Climate-Related  
Financial Disclosures Report  
2020**

**HIGH MARGINS  
ZERO CAPITAL**

PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") is committed to communicating with stakeholders regarding how we assess and manage climate related risks and opportunities in our business, and with respect thereto we have prepared the disclosures below based on the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD"). The TCFD is working to improve and increase reporting of clear and comprehensive information on the impacts of climate change. PrairieSky supports these initiatives and is committed to continuous improvement of the Company's reporting in line with the TCFD framework.

**Governance**  
 Disclose the organization's governance around climate related risks and opportunities.

**A) Describe the Board's oversight of climate related risks and opportunities.**

The Board of Directors provides oversight and direction in the strategic planning process. Our Board of Directors has ultimate responsibility for overseeing the Company's environmental, social and governance ("ESG") reporting and continuous improvement efforts, which is codified throughout our Directors' Mandate, Board Chair Guidelines, President & CEO Guidelines, Business Code of Conduct, Environment, Climate Change and Health and Safety Policy, and other subject specific policies, each of which is available on our website at [www.prairiesky.com/governance/](http://www.prairiesky.com/governance/). Strong corporate governance is the foundation of our corporate culture and strategy and ensures accountability to, and alignment with, our stakeholders.

Our Board has three standing committees which are responsible for carrying out certain aspects of the Board's mandate: the Audit Committee; the Governance and Compensation Committee; and the Reserves Committee. Each Committee is comprised entirely of independent directors. The Board, not a specific committee, has oversight responsibility for material risks, including environmental, social and climate related risks as follows:

<b>Board Chair</b>
<b>Governance and Compensation Committee &amp; Audit Committee</b>
Board Chair commitment to ESG strategy and outcomes with oversight responsibility
Governance and Compensation Committee measures annual ESG performance criteria tied to annual and long-term compensation of Executives
Audit Committee has responsibility for Enterprise Risk Management function, which involves an annual Board level assessment of risks including ESG and Climate Change factors

The Board Chair's oversight of climate-related risks and opportunities takes place at all Board meetings through various agenda items. At every quarterly Board meeting the Board Chair includes written materials and ensures open discussion on climate-related issues as part of our broader ESG agenda, including on topics such as evolving policy frameworks and regulations, stakeholder engagement, capital markets developments and business trends. The Board Chair also reviews the Company's climate-related performance, including with respect to operational improvements, carbon and waste reductions, water use, business strategy, and market positioning. In addition, twice per year, the Board Chair will provide oversight on reviewing and guiding risk management policies through the Enterprise Risk Management (ERM) Framework which resides at a working level with the Audit Committee. This oversight responsibility covers a detailed review of the corporate risk register to assess the implications of environmental risks, including climate-related matters, mitigation measures to limit or reduce such risks, and Company strategies to maximize opportunities.

**B) Describe management’s role in assessing and managing climate-related risks and opportunities.**

The Company’s CEO provides strategic oversight on climate-related matters, including overseeing our progress on short and long-term goals and targets, as well as our corporate disclosures on climate-related governance, risks and opportunities, strategy, management and performance through our CDP submission, Responsibility Report, Annual Report and website.

In 2019, we strengthened the CEO’s accountability for ESG initiatives, including climate change matters, particularly with respect to strategy, implementation, and progress. Given the complexity and uncertainty of potential climate-related impacts on our business, we believe it is important for our CEO to provide strategic oversight on climate-related matters to ensure we are effectively and proactively managing potential risks and opportunities. In undertaking this responsibility, the CEO reports to the Board Chair and/or the Governance and Compensation or Audit Committee, as necessary, on such matters.

Both the COO and CFO are appointed as leads on ESG and Sustainability matters and have direct responsibility for overseeing efforts being taken to minimize the energy and carbon impacts of the Company, as well as responding to investor requests on ESG topics. More specifically, the COO is responsible for the governance of broader ESG topics including advancing the corporate ESG agenda and operational implementation and execution of ESG specific matters, including climate-related matters. The CFO is responsible for the ERM program and for collecting and reporting on the Company’s sustainability and climate performance. Both the COO and CFO report to the CEO on these matters, as well as to the Board Chair and/or the Governance and Compensation and Audit Committee of the Board of Directors.

The following table describes the executive framework and allocation of responsibility for ESG and climate related matters:

<b>President and CEO</b>	
Accountable to the Board for ESG and climate initiatives (strategy, implementation, progress)	
<b>COO</b>	<b>CFO</b>
Responsible for ESG and climate matters and overseeing efforts to meet corporate objectives, including reporting initiatives and stakeholder engagement.	
Responsible for governance of broader ESG topics and advancing corporate ESG agenda  Responsible for operational implementation and execution of ESG specific matters, including alignment with contracting framework and supply chain counterparties	Responsible for ERM program  Responsible for collecting and reporting on sustainability performance
<b>Managers</b> – Guide team level efforts on ESG initiatives	
<b>Staff</b> – Contribute individually to team level efforts on ESG initiatives	

## Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

### A) Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term.

At PrairieSky, we review climate-related risks and opportunities over the short, medium and longer-term. These timelines are incorporated into our ERM framework.

In the short term (within the next 12 months) we will continue to work diligently to assess evolving legal and regulatory frameworks, greenhouse gas and carbon policies and pricing frameworks, and incorporate the same into our longer-term strategy. These policies and frameworks have the potential to directly impact exploration and production companies on our royalty lands by increasing operating costs and capital expenditures in order to comply with evolving regulations. In turn, the economic rates of return associated with exploration and development activities in Canada's oil and gas sector may be negatively impacted, which could in turn impact the pace of development of assets in the future.

While policies directed at accelerating capital investment in alternative, lower carbon energy sources can impact the Company's assets over time, PrairieSky believes it is well positioned to take advantage of transition opportunities both by investing in new opportunities and exploiting the organic opportunities within its existing business. All of PrairieSky's royalty properties are in Canada, one of the most highly regulated jurisdictions in the world which is widely known as a leader in responsible energy development and technological ingenuity. In the near term and beyond, PrairieSky will continue to support policies that are transparent and promote sustainable and economically responsible oil and natural gas development for Canadians and the world.

In the medium term (over the next 1-3 years), we anticipate that there will be evolving demand for oil and natural gas products, including increasing demand for natural gas as electricity generation markets transition from coal to natural gas, Canadian LNG and petrochemical projects advance and "blue" hydrogen opportunities and technologies progress. PrairieSky currently leases lands to third-party operators involved in enhanced recovery and CO2 sequestration projects which increase the recovery of energy from existing discoveries while permanently sequestering greenhouse gases from industrial emitters, thereby minimizing the environmental impact of hydrocarbon production and offsetting emissions from other industries. We believe CO2 sequestration projects, alone or in combination with enhanced recovery or in-situ energy technologies, represent a meaningful opportunity for PrairieSky.

Over the longer term (3-10 years), we believe any energy transition will take root in new, cost effective technologies in combination with responsible and sustainable hydrocarbon development. We are focused on ensuring that we own royalties in the most economic oil and natural gas plays as we believe these are the projects that will continue to be developed over the long-term, including oil plays that do not require fracking, have low or nil freshwater water use, and have lower carbon footprints. Transition opportunities available to PrairieSky may include development of minerals which PrairieSky currently owns, such as Lithium, and include alternative low-carbon resource gasification and "blue" hydrogen projects combined with permanent sequestration of CO2. We dedicate considerable time and resources to monitoring trends in oil and natural gas supply and demand, as well as alternative energy technologies, to understand how

PrairieSky can optimize its existing assets and contribute to new projects with a lower emission profile over a longer duration.

**B) Describe the impact of climate-related risk and opportunities on the organization's businesses, strategy, and financial planning.**

PrairieSky is a royalty and land business that does not conduct any oil and gas operations or have any of the infrastructure, assets and liabilities typically associated with hydrocarbon exploration and development. We have business partnerships with the upstream energy industry in Canada through leasing arrangements with third-party operators who explore for and develop oil and natural gas on our royalty interest lands. Changing regulations, including those related to climate change such as carbon pricing and methane reductions, have the potential to improve the sustainability attributes of our energy industry, but also to increase costs for third-party operators and the associated economic returns of certain projects.

PrairieSky's royalty properties span Western Canada from northeast British Columbia to southwest Manitoba and our net royalty share of production is approximately 50 percent natural gas and 50 percent oil and natural gas liquids. The diversification of geography, geology and commodity mitigates risks, and has the potential to mitigate risks related to climate change as demand between different commodities shifts. From a financial planning perspective, PrairieSky maintains a very simple and conservative capital structure and balance sheet and proactively mitigates counterparty credit risk to manage our exposure, including taking production in kind and/or letters of credit where appropriate. Risk management and mitigation has been, and continues to be, a pillar of the Company's corporate culture.

PrairieSky owns its fee lands in perpetuity which includes the rights to all mines and minerals that are currently undeveloped or underexploited. The Company continues to form business partnerships with entities utilizing new and alternative technologies which have the potential to expand the intrinsic value of the Company's business at no additional cost. Many of these opportunities lie outside of conventional oil and natural gas exploration and production, including Lithium extraction and refining.

**C) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**

The Board and management consider climate change scenarios as part of our strategic planning. We have not yet advanced this work to include quantitative climate-related scenarios, including a 2°C or lower scenario. Rather, we consider several differing outlooks for oil and natural gas supply and demand based on available expert information. Through this analysis, we aim to understand the potential timeframe and likelihood of projects being developed on our royalty lands, and the factors which could positively and negatively impact the same. We also use this information to evaluate and advance projects with reduced carbon footprints as well as those that remove carbon that would otherwise be emitted into the atmosphere, such as CO<sub>2</sub> sequestration projects.

The Company's near to medium term ESG strategic plan includes undertaking more formalized and quantitative scenario analysis and developing related disclosures in line with TCFD. We expect this work to commence in 2021.

## Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

### A) Describe the organization's processes for identifying and assessing climate-related risks.

The Board of Directors and the PrairieSky Executive team are responsible for the Company's goals and objectives, and the strategies to achieve them. Identifying and assessing risk is essential to this process. PrairieSky manages risk through its corporate ERM program. The program evaluates, ranks and prioritizes key risks with the potential to impact the business, including ESG factors, further filtering these risks into principal risks which have higher potential to impact PrairieSky's businesses and financial outlook. Environmental and climate change-related risk is identified as a principal risk to our business as well as a potential contributing factor to other principal risks such as access to capital for PrairieSky and third-party operators on our royalty properties. The Audit Committee has working responsibility for the ERM Program, which is ultimately overseen by the entire Board of Directors. Management reports on Environmental and Climate Change Risk, along with all ESG matters, to the full Board at each quarterly meeting.

### B) Describe the organization's processes for managing climate-related risks.

Through our ERM framework, PrairieSky proactively identifies, assesses and manages risks inherent or evolving in our business and industry. This includes the evaluation of both potential impacts and opportunities generated by environmental and climate change risk, along with the knock on effects of other principal risks and ESG considerations.

Using our corporate risk matrix, we identify and categorize risks on a grid based on the magnitude and potential impact, including financial impact, they may have on the business. Included in this assessment is an identification and analysis of the opportunities that potential risks may highlight. Through this process, we measure the likelihood, impact, velocity (speed of onset) and potential consequences of these risks. This methodology is used to assess all risks in our risk register, including environmental and climate-related risk, and informs the development of corporate strategies and planning efforts which are disclosed in PrairieSky's Annual Responsibility Report, Information Circular and Proxy Statement, Annual Information Form and other disclosures on our website, all of which is available at [www.prairiesky.com](http://www.prairiesky.com).

Environmental and climate change-related risk is considered a principal risk for our business and is further segregated into the following physical and transition risks:

**Acute physical risks** are significant changes in weather and temperature, including extreme hot and cold weather, heavy rainfall, flooding and wildfires which may impact PrairieSky or third-party operators on PrairieSky's royalty properties by restricting access to locations, causing operational delays or difficulties, increasing costs and disrupting supply chains. The diverse nature of PrairieSky's royalty properties and operators mitigates acute physical risks. For PrairieSky's only business location, our head office in Calgary, Alberta, we have a Business Continuity Plan as well as insurance coverage in place for acute weather events that may impact our operations.

**Chronic physical risks** relate to long-term shifts in weather patterns which may result in water scarcity, increased frequency of storms and wildfires and prolonged heat waves. These shifts may create operational delays for third-party operators on our royalty properties and may increase the costs for these operators to manage these changes as further discussed above under acute physical risks.

<p><b>Market risk</b> is the potential for shifts in supply and demand for oil and natural gas as climate-related risks and opportunities are increasingly taken into account. These shifts will impact both commodity prices and royalty volumes, including the pace of development of our royalty properties. We have strategies in place to mitigate these impacts, including diversity in products and a strategy of investing in low-cost plays that provide strong returns for third-party operators.</p>
<p><b>Regulatory risk</b> arises from evolving climate change policies and governmental efforts at the national, provincial and local level to reduce GHG emissions. Changes to regulations may result in increased operating or capital costs for third-party operators on PrairieSky's royalty properties and/or restrict certain activity. We closely monitor how these changes may impact PrairieSky directly or indirectly.</p>
<p><b>Reputational risk</b> are impacts to stakeholder perceptions related to how PrairieSky is viewed as contributing to or detracting from a transition to a lower-carbon economy. We strive to manage stakeholder issues and expectations, including those related to climate change, that could impact our ability to operate our business, grow on a per share basis and access to capital.</p>
<p><b>Technological risks</b> relate to the improvements and/or innovations that support the transition to a lower-carbon economy. These changes could reduce certain investments in our royalty properties while increasing other opportunities such as development of natural gas, blue hydrogen, and lithium, as well as carbon sequestration projects.</p>
<p><b>Legal risk</b> arises from the potential for legal action related to climate-related legislation including GHG emissions, carbon taxes, and/or not adequately addressing climate change risk, including insufficient disclosure of material risks. PrairieSky monitors legal risks closely as part of our risk management process.</p>

Please see PrairieSky's Annual Information Form for a full list of material risks from a securities law perspective (<https://www.prairiesky.com/investors/>).

When identifying or assessing a principal risk, including a climate-related risk, the determination of whether it has a substantive financial impact is aligned with our corporate ERM Framework taking into consideration the likelihood and the severity of the impact. We define substantive financial impact as any principal risk that has the potential to materially impact the ability of our business or business functions to meet or support a company objective within our business strategy.

When considering risks and opportunities, we consider the time horizons aligned with our ERM program. The short-term time horizon considers risk events likely to occur at least once every year (0-1 year). The medium-term time horizon considers risk events likely to occur at least once every 3 years (1-3 years). The long-term time horizon considers risk events likely to occur at least once every 3-10 years (3-10 years). Risks, including environmental and climate change-related risk, are assessed on a short-term, medium-term and long-term basis.

**C) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.**

Our plan and strategy ensure we identify, assess and manage risks, including transition risks, to the extent possible, and further assess and evaluate opportunities. Our ERM framework and risk management process is managed at the Executive level, with a team that provides experience and expertise to inform our strategy. The Audit Committee has working level responsibility for reviewing and evaluating the ERM framework, and the Board conducts an in-depth review of our ERM framework annually at the third quarter meeting each year. Risks are also addressed as part of our discussion and approval of the Annual Information Form and quarterly Management’s Discussion & Analysis. Climate change risks and strategies are discussed at Executive meetings, company wide town halls, as well as part of our ESG discussions at each quarterly Board meeting.

### Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

**A) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.**

Climate-related risks and opportunities are integrated into PrairieSky’s ERM Framework. We are committed to reducing our carbon footprint at our only business location, which is our leased head office space in Calgary, Alberta. We set an absolute target to lower our emissions by 5% from 2017 emissions and achieved that target in 2019. The reduction achieved was primarily driven by LED lighting and building equipment upgrades. We also purchased green renewable energy to offset the total amount of PrairieSky’s Scope 1 and Scope 2 emissions.

**B) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.**

Greenhouse Gas Emissions	Units	2017	2018	2019	Verification <sup>(2)</sup>
Scope 1 (location-based)	metric tons CO <sub>2</sub> e	127.5	144.0	<b>137.4</b>	PwC
Scope 1 (market-based)	metric tons CO <sub>2</sub> e	127.5	144.0	<b>0.0</b>	PwC
Scope 2 (location-based)	metric tons CO <sub>2</sub> e	415.7	386.3	<b>315.9</b>	PwC
Scope 2 (market-based)	metric tons CO <sub>2</sub> e	415.7	386.3	<b>0.0</b>	PwC
Scope 3 emissions – Business Travel	metric tons CO <sub>2</sub> e	Not recorded	15.7	<b>32.1</b>	PwC
Scope 3 emissions – Employee Commuting	metric tons CO <sub>2</sub> e	Not recorded	76.0	<b>59.5</b>	PwC

<sup>(1)</sup> PrairieSky has one business location, its head office location in Calgary, Alberta.

<sup>(2)</sup> PricewaterhouseCoopers LLP has provided limited assurance over indicators marked PwC. Verification of the data reported and assumptions made can be found in the PwC [assurance statement](#) on our website. Where data was verified, it was for the years 2019 and 2018.



**C) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.**

Going forward, we are committed to reducing our carbon footprint and have set an absolute target across our Scope 1 and 2 emissions. Using 2017 as our base year, our target is to reduce Scope 1 and 2 emissions by 50% in 2025.



James Estey  
Chairman of the Board



Andrew Phillips  
President & Chief Executive Officer

## Caution Regarding Forward-Looking Statements

Certain information contained in this 2020 TCFD Report may constitute forward-looking statements within the meaning of applicable securities laws, including, but not limited to, statements regarding PrairieSky's plans to continue to look for ways to reduce our impact on the environment, monitor potential and existing operator behavior, monitor the impacts of oil and gas operations on the environment, and initiatives to continually develop our environmental, social and governance disclosure and TCFD reporting. This 2020 TCFD Report also includes statements relating to the potential causes and impacts of climate change including on economies, the oil and gas industry and communities in which PrairieSky and our business partners operate, and strategies to mitigate and adapt to climate related risks and opportunities, including investments in clean technology, CO2 sequestration and energy transition projects, some or all of which may not materialize in part or at all. The forward-looking information contained in this 2020 TCFD Report is included to assist our stakeholders in understanding the ways we intend to address climate-related risks and opportunities. This information may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "believe", "expect", "foresee", "forecast", "anticipate", "intend", "estimate", "goal", "plan" and "project" and similar expressions of future or conditional verbs such as "will", "may", "should", "could" or "would".

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our strategies to mitigate and adapt to climate-related risks and opportunities will not be achieved. We caution readers not to place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors – many of which are beyond our control and the effects of which can be difficult to predict – include credit, market, liquidity and funding, insurance, operational, regulatory compliance, strategic, reputation, legal and regulatory environment, competitive and systemic risks and other risks discussed in the risk sections of our Annual Information Form and Management's Discussion and Analysis for the year ended December 31, 2019, both of which are available at [www.prairiesky.com](http://www.prairiesky.com). We caution that the foregoing list of risk factors is not exhaustive and other factors also could adversely affect our results. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Please refer to PrairieSky's most recent Annual Information Form and Management's Discussion and Analysis both of which are available at [www.prairiesky.com](http://www.prairiesky.com) for a detailed discussion of the material assumptions and risks associated with the forward-looking statements. The forward-looking statements contained herein are made as of the date of this document, and except to the extent required by applicable securities laws and regulations, PrairieSky assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document are expressly qualified by this cautionary note.