

**PRAIRIESKY ROYALTY LTD.**

**STOCK OPTION PLAN**

**Effective May 29, 2014, as amended  
and restated effective February 27, 2017**

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**1. Purposes**

1.1 The principal purposes of the Plan are as follows:

- (a) to provide long term incentives to officers and certain employees of the Company;
- (b) to allow such persons to participate in the growth and development of the Company by providing them with the opportunity, through Options to acquire Common Shares, to acquire an increased proprietary interest in the Company that will be aligned with the interests of the Shareholders and to reward them on the basis of the long-term Common Share trading price performance; and
- (c) to assist the Company to attract and retain individuals with experience and ability to act as officers and employees of the Company.

**2. Definitions and Interpretation**

As used in the Plan, including the foregoing provisions hereof, the following words and phrases shall have the meanings indicated:

- 2.1 "**affiliate**" and "**associate**" have the meanings set forth in the *Securities Act* (Alberta);
- 2.2 "**Aggregate Insider Limit**" has the meaning set forth in Section 5.6;
- 2.3 "**Approval Date**" has the meaning set forth in Section 5.2(b);
- 2.4 "**Blackout Period**" means the period during which the relevant Optionholder is prohibited from exercising an Option due to trading restrictions imposed by the Company in accordance with its trading policies affecting trades by an Eligible Person;
- 2.5 "**Board**" means the board of directors of the Company as it may be constituted from time to time;
- 2.6 "**Business Day**" means any day which is not a Saturday, Sunday or statutory holiday, on which the TSX is open for trading;
- 2.7 "**Committee**" means the Governance and Compensation Committee of the Board or such other committee as the Board considers appropriate;
- 2.8 "**Common Shares**" means the common shares of the Company or, in the event of an adjustment contemplated by Article 8, such other securities to which an Optionholder may be entitled upon the exercise of an Option as a result of such adjustment (and for greater certainty, following any Transaction, includes any Replacement Securities for which the Common Shares have been exchanged as a result thereof);
- 2.9 "**Company**" means PrairieSky Royalty Ltd. and any successor corporation, whether by amalgamation, merger or otherwise, and unless the context requires otherwise, includes the Company and its subsidiaries or any one of them;

- 2.10 **"Continuing Entity"** has the meaning set forth in Section 8.1;
- 2.11 **"Disability"** has such meaning as the Company shall determine in its internal policies relating to long-term disability from time to time (provided however that, where applicable, if an Eligible Person's Employment Agreement contains a definition of "Disability", "Permanent Disability" or a similar term, that definition shall be deemed to be the definition of "Disability" for the purposes of the Plan);
- 2.12 **"Eligible Person"** means any officer or employee of the Company (including, for greater certainty, any subsidiary of the Company);
- 2.13 **"Employment Agreement"** means, where applicable, a written employment agreement, change in control agreement or similar written agreement between the Company and the applicable Eligible Person;
- 2.14 **"Exchange"** means the TSX and, where the context permits, any other stock exchange(s) on which the Common Shares are or may be listed from time to time;
- 2.15 **"Exercise Price"** means the price per Common Share at which a Common Share may be purchased under the Option, as the same may be adjusted from time to time in accordance with Article 8;
- 2.16 **"Expiry Date"** means the date designated by the Board at the time of grant on which the Option expires and is of no further force and effect, except in accordance with the provisions relating to a Blackout Period described in Section 5.2;
- 2.17 **"Grant Agreement"** means a written agreement between the Company and the Optionholder evidencing a grant of Options made pursuant to the Plan;
- 2.18 **"Individual Limit"** has the meaning set forth in Section 5.5;
- 2.19 **"Insider"** means an insider of the Company, as defined in the *Securities Act* (Alberta), and any associate or affiliate of any such insider;
- 2.20 **"Just Cause"** means a determination by the Company that the Eligible Person has: (i) wilfully and continuously failed to substantially perform the duties assigned by the Company (other than a failure resulting from the Eligible Person's Disability); (ii) wilfully, recklessly or negligently engaged in conduct which is, or likely to be, materially injurious to the Company monetarily or otherwise, including conduct that, in the reasonable judgment of the Board, does not conform to the standard of the Company's executives or employees, as applicable; (iii) engaged in any act of dishonesty, moral turpitude, the commission of a criminal offence, or a significant violation of any statutory or common law duty of loyalty to the Company; (iv) any material breach by the Eligible Person of any one or more employment or non-competition, non-solicitation, confidentiality or other restrictive covenants to which the Eligible Person is subject; or (v) engaged in other acts or omissions which would constitute cause for termination of employment without notice or pay in lieu, as determined by the laws applicable to the Eligible Person's employment relationship with the Company;
- 2.21 **"Market Price"** at any date in respect of the Common Shares shall be the closing price of the Common Shares on the TSX (or if not then listed on the TSX, then any other Exchange) on the last Business Day preceding the applicable date (including the date of grant of an Option as approved by the Board in accordance with Section 5.2(b));

- 2.22 **"Option"** means an option to purchase a Common Share granted under the Plan;
- 2.23 **"Optionholder"** means an Eligible Person to whom an Option has been granted;
- 2.24 **"Plan"** means this Stock Option Plan, as may be amended, supplemented or restated from time to time;
- 2.25 **"Replacement Securities"** has the meaning set forth in Section 8.1;
- 2.26 **"Retirement"** means the retirement of an Eligible Person from employment with the Company in accordance with the normal retirement policy of the Company;
- 2.27 **"Security Based Compensation Arrangement"** means any incentive plan, option, option plan, employee share purchase plan where the Company provides any financial assistance or matching mechanism, stock appreciation right or any other compensation or incentive mechanism, which in each case involves the issuance or potential issuance of securities from the Company's treasury, including a share purchase from treasury which is financially assisted by the Company by way of a loan guarantee or otherwise, but for greater certainty does not involve compensation arrangements which do not involve the issuance or potential issuance of securities from the Company's treasury;
- 2.28 **"Shareholder"** means a holder of Common Shares;
- 2.29 **"subsidiary"** has the meaning set forth in the *Securities Act* (Alberta);
- 2.30 **"Termination Date"** means the later of: (i) the date that the Eligible Person ceases to actively perform the usual and customary day-to-day duties of the Eligible Person's position or job with the Company; and (ii) the end of any working or similar notice period applicable to the termination of such Eligible Person's employment with the Company, whether established by statute, at common law or pursuant to any agreement (including any Employment Agreement) between the Company and such Eligible Person;
- 2.31 **"Transaction"** has the meaning set forth in Section 8.1; and
- 2.32 **"TSX"** means the Toronto Stock Exchange.

### **3. Administration of the Plan**

- 3.1 The Plan shall be administered by the Board, which shall have the authority in its sole and absolute discretion to administer the Plan and to exercise all the powers and authorities either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan, all acting reasonably and in good faith and subject to and not inconsistent with the express provisions of the Plan (including the discretionary authority of the Board set forth in this Section 3.1) and including, without limitation:
- (a) the authority to grant Options;
  - (b) to determine the Eligible Persons to whom, and the time or times at which, Options shall be granted;
  - (c) to determine the number of Common Shares issuable upon the exercise of each Option;

- (d) to determine the Exercise Price for the issuance of Common Shares on the exercise of Options;
- (e) to determine the time or times when Options will be granted, vested and exercisable (including any determination to accelerate the vesting of any Options granted hereunder) and determine the Expiry Date of an Option;
- (f) to determine if the Common Shares that are subject to an Option will be subject to any restrictions upon the exercise of such Option;
- (g) to establish policies and to adopt rules and regulations for carrying out the purposes, provisions and administration of the Plan;
- (h) to interpret and construe the Plan and to determine all questions arising out of the Plan and any Option granted pursuant to the Plan (and any such interpretation, construction or determination made by the Board shall be final, binding and conclusive for all purposes on the Company and the Optionholder);
- (i) to determine and prescribe the terms and provisions of Grant Agreements (which need not be identical) entered into in connection with grants of Options and the form of documents or processes in respect of the exercise of Options; and
- (j) to make all other determinations deemed necessary or advisable for the administration of the Plan.

The Board may delegate to the Committee such administrative duties relating to the Plan as the Board may deem advisable, and where so delegated, any reference to the Board in the Plan shall be deemed to be a reference to the Committee.

For greater certainty and without limiting the discretion conferred on the Board pursuant to this Section 3.1, the Board's decision to approve the grant of an Option to an Eligible Person in any period shall not require the Board to approve the grant of an Option to any Eligible Person in any other period; nor shall the Board's decision with respect to the size or terms and conditions of an Option grant in any period require it to approve the grant of Options of the same or similar size or with the same or similar terms and conditions to any Eligible Person in any other period. The Board shall not be precluded from approving the grant of an Option to any Eligible Person solely because such Eligible Person may previously have been granted an Option under the Plan or any other similar compensation arrangement of the Company.

#### **4. Common Shares Subject To The Plan**

- 4.1 Options may be granted in respect of authorized and unissued Common Shares, provided that the aggregate number of Common Shares reserved for issuance under the Plan, subject to adjustment or increase of such number pursuant to the provisions of Article 8, shall not exceed 5% of the number of issued and outstanding Common Shares (on a non-diluted basis) at the relevant time, less the aggregate number of Common Shares reserved for issuance under any other Security Based Compensation Arrangement. Provided that such maximum number of Common Shares is not exceeded, following the exercise, expiration, cancellation or other termination of any Options under the Plan, a number of Common Shares equal to the number of Options or rights so exercised, expired, cancelled or terminated shall automatically become available for issuance in respect of Options that may

subsequently be granted under the Plan. No fractional Common Shares may be purchased or issued under the Plan.

## 5. Eligibility, Grant and Terms of Options

- 5.1 Options may be granted only to Eligible Persons as the Board may determine, provided that no Eligible Person has any claim or right to be granted an Option. In determining the Eligible Persons to whom Options may be granted and the number of Options granted to any Eligible Person, the Board may take into account such factors as it shall determine in its sole and absolute discretion. Participation in the Plan by Eligible Persons is voluntary.
- 5.2 Subject to, and except as herein and as otherwise specifically provided for in the Plan, the number of Common Shares subject to each Option, the Exercise Price, the Expiry Date of each Option, the extent to which each Option vests and is exercisable from time to time during the term of the Option and other terms and conditions relating to each such Option shall be determined by the Board; provided, however, that:
- (a) the Expiry Date of an Option shall be no later than the date which is five (5) years from the date of grant of such Option;
  - (b) the date of grant of an Option shall be either the date on which such Option was approved by the Board (the "**Approval Date**"), or, if the Approval Date was not a Business Day, then the Business Day immediately following the Approval Date, or if the Approval Date occurred during a Blackout Period applicable to the relevant Optionholder, then the tenth Business Day after the expiry of the Blackout Period; and
  - (c) notwithstanding Section 5.2(a), if the Expiry Date of an Option occurs during a Blackout Period applicable to the relevant Optionholder, or within 10 Business Days after the expiry of a Blackout Period applicable to the relevant Optionholder, then the Expiry Date for the Option shall be the date that is the tenth Business Day after the expiry of the Blackout Period (the "**Blackout Expiry Date**"). The Blackout Expiry Date for an Option may not be amended by the Board without the approval of the Shareholders in accordance with Article 9 of the Plan.
- 5.3 Each Option granted under the Plan shall be subject to the terms and conditions of the Plan and evidenced by a Grant Agreement and such other terms and conditions as the Board, in its discretion, shall establish. Notwithstanding the foregoing, the Board may determine that no separate agreement between the Company and the Optionholder shall be necessary to create and grant any Option, and the Board may, solely by resolution, create and grant Options and stipulate such additional terms as are consistent with the Plan.
- 5.4 The Exercise Price for Common Shares that are subject to any Option shall in no circumstances be lower than the Market Price of the Common Shares at the date of the grant of the Option.
- 5.5 The maximum number of Common Shares that may be issued to any individual Optionholder under the Plan shall be 5% of the number of issued and outstanding Common Shares (on a non-diluted basis) at the date of grant of the Option, less the aggregate number of Common Shares reserved for issuance to such Optionholder under any other Security Based Compensation Arrangement (the "**Individual Limit**").

- 5.6 The maximum number of Common Shares that may be issued to Insiders as a whole under the Plan shall be 5% of the number of issued and outstanding Common Shares (on a non-diluted basis) at the date of grant of the Option, less the aggregate number of Common Shares reserved for issuance to Insiders as a whole under any other Security Based Compensation Arrangement (the "**Aggregate Insider Limit**").
- 5.7 The maximum number of Common Shares that may be issued to Insiders as a whole under the Plan within a one year period shall be the Aggregate Insider Limit, excluding Common Shares issued to Insiders as a whole under the Plan or any other Security Based Compensation Arrangement over the preceding one year period. The maximum number of Common Shares that may be issued to any one Insider under the Plan and any other Security Based Compensation Arrangement within a one year period shall be the Individual Limit, excluding Common Shares issued to such Insider under the Plan or any other Security Based Compensation Arrangement over the preceding one year period.
- 5.8 Subject to Sections 6.2 and 6.3 in the case of the death of an Optionholder, an Option granted to an Optionholder, and the right to receive Common Shares pursuant thereto, is personal to such Optionholder. Except as otherwise provided in the Plan, no assignment, sale, transfer, pledge or charge of an Option, whether voluntary, involuntary, by operation of law or otherwise, vests any interest or right in such Option whatsoever in any assignee or transferee and, immediately upon any assignment, sale, transfer, pledge or charge or attempt to assign, sell, transfer, pledge or charge, such Option shall terminate and be of no further force or effect.

## **6. Termination of Employment**

- 6.1 Subject to Section 6.2 hereof, to any express resolution or other determination by the Board with respect to an Option or the terms of any Grant Agreement or Employment Agreement, an Option, and all rights to purchase Common Shares pursuant thereto, shall expire and terminate immediately upon the Optionholder ceasing to actively provide services to the Company in his or her capacity as an officer or employee of the Company, as the case may be.
- 6.2 Subject to any express resolution or other determination by the Board with respect to an Option or the terms of any Grant Agreement or Employment Agreement, if, before the Expiry Date of an Option in accordance with the terms thereof, the employment of the Optionholder by the Company is terminated by either party for any reason whatsoever, other than termination for Just Cause or as a result of the voluntary resignation of the Optionholder, such Option may, subject to the terms thereof (including the vesting provisions thereof) and any other terms of the Plan, be exercised by the Optionholder, or, if the Optionholder is deceased, by the legal personal representative(s) of the estate of the Optionholder, at any time within 60 days of the Termination Date of such Optionholder's employment with the Company, but in any case prior to the Expiry Date of the Option in accordance with the terms thereof.
- 6.3 If, before the Expiry Date of an Option in accordance with the terms thereof, the employment of the Optionholder by the Company is terminated by reason of death, Disability or Retirement, unless the Board determines otherwise, all outstanding Options held by such Optionholder shall become fully vested and may be exercised by the Optionholder or, if the Optionholder is deceased, by the legal personal representative(s) of the estate of the Optionholder (including such part, if any, thereof which, but for this Section 6.3, would not

otherwise be able to be exercised) at any time after such death or the Termination Date relating to such Disability or Retirement and prior to the Expiry Date of such Option.

- 6.4 A transfer of employment or services between the Company and a subsidiary or affiliate of the Company or between subsidiaries or affiliates of the Company shall not be considered an interruption or termination of the employment of an Optionholder by the Company for any purpose of the Plan, and Options shall not be affected by any such transfer of employment or services.

## **7. Exercise of Options**

- 7.1 Subject to the provisions of the Plan, an Option may be exercised from time to time by delivery to the Company, at its head office or such other place as may be specified by the Company, of a written notice of exercise specifying the number of Common Shares with respect to which the Options are being exercised and accompanied by payment in full of (a) the Exercise Price of the Common Shares to be purchased and (b) an amount for any tax withholding or remittance obligations of the Optionholder or the Company arising under applicable law (or by entering into some other arrangement acceptable to the Company). Certificates or other evidence of ownership for such Common Shares shall be issued and delivered to the Optionholder within a reasonable time following the receipt of such notice and payment.

Notwithstanding the above, the Company may implement such systems and procedures from time to time to facilitate the exercise of Options pursuant to the Plan and shall provide Optionholders with all necessary details regarding such systems and procedures to facilitate the exercise of Options from time to time in accordance with their terms.

- 7.2 Notwithstanding any of the provisions contained in the Plan or in any Option, the Company's obligation to issue Common Shares to an Optionholder pursuant to the exercise of an Option shall be subject to:
- (a) completion of such registration or other qualification of such Common Shares or obtaining approval of such governmental authority as the Board shall determine to be necessary or advisable in connection with the authorization, issuance or sale thereof;
  - (b) the listing of such Common Shares on the Exchange; and
  - (c) the receipt from the Optionholder of such representations, agreements and undertakings, including as to future dealings in such Common Shares, as the Company or its counsel determines to be necessary or advisable in order to safeguard against the violation of the securities laws of any jurisdiction.

In connection with the foregoing, the Company shall, to the extent necessary, take all reasonable steps to obtain such approvals, registrations and qualifications as may be necessary for the issuance of such Common Shares in compliance with applicable securities laws and for the listing of such Common Shares on an Exchange.

- 7.3 Subject to the provisions of the Plan, unless the Board determines otherwise at any time, once an Option has vested and become exercisable an Optionholder may elect to exercise such Option by surrendering such Option in exchange for the issuance of Common Shares equal to the number determined by dividing (a) the difference between the Market Price (calculated as at the date of exercise) and the Exercise Price of such Option by (b) the



Market Price (calculated as at the date of exercise). An Option may be exercised pursuant to this Section 7.3 from time to time by delivery to the Company at its head office or such other place as may be specified by the Company, of (a) a written notice of exercise specifying that the Optionholder has elected to effect such a cashless exercise of such Option and the number of Options to be exercised and (b) the payment of an amount for any tax withholding or remittance obligations of the Optionholder or the Company arising under applicable law (or by entering into some other arrangement acceptable to the Company). The Company will not be required, upon the exercise of any Options pursuant to this Section 7.3, to issue fractions of Common Shares or to distribute certificates which evidence fractional Common Shares. In lieu of fractional Common Shares, there will be paid to the Optionholder by the Company upon the exercise of such Options pursuant to this Section 7.3, as soon as practicable but no more than thirty (30) Business Days after the exercise date, an amount in lawful money of Canada equal to the then fair market value of such fractional interest (as determined by the Company), provided that the Company will not be required to make any payment, calculated as aforesaid, that is less than \$20.00. Upon exercise of the foregoing, the number of Common Shares underlying the Options exercised shall be deducted from the number of Common Shares reserved for issuance under the Plan.

## **8. Business Combinations and Certain Adjustments**

8.1 Subject to Section 8.2, if, during the term of an outstanding Option, the Company shall complete any merger, amalgamation, arrangement, business combination or sale of all or substantially all of its assets and undertaking, be the subject of a take-over bid (as defined in the *Securities Act* (Alberta)), or participate in any similar transaction (any of the foregoing referred to as a "**Transaction**"), and as a result of such Transaction the holders of Common Shares receive securities of another issuer (the "**Continuing Entity**") in full substitution or replacement for the Common Shares ("**Replacement Securities**"), the Company (including any Continuing Entity as successor thereof) will make provision that, upon the exercise of any Option during its unexpired period after the effective date of such Transaction, the Optionholder shall receive such number of Replacement Securities as he or she would have received as a result of such Transaction if the Optionholder had exercised the Optionholder's Options to purchase Common Shares prior to the completion of the Transaction and had held such Common Shares on the effective date of such Transaction. Upon such provision being made, the obligation of the Company to the Optionholder in respect of the Common Shares then remaining subject to this Option shall terminate and be at an end.

Prior to or contemporaneously with the consummation of such Transaction, the Company and the Continuing Entity shall execute such instruments and do such things as are necessary to establish that upon the consummation of such Transaction the Continuing Entity will have assumed all the covenants and obligations of the Company under the Plan, all Grant Agreements and the Options outstanding on consummation of such Transaction in a manner that substantially preserves and does not impair the rights of the Optionholders in any material respect (including the right to receive Replacement Securities or other cash or property of the Continuing Entity in lieu of Common Shares upon the subsequent exercise of Options).

8.2 Notwithstanding Section 8.1, in the event that:

- (a) the Continuing Entity does not (or, upon the occurrence of the Transaction, will not) substitute or replace, or the nature of the Transaction does not provide for the full substitution or replacement of, the securities issuable upon the exercise of Options outstanding under the Plan on the same terms as described in Section 8.1;

- (b) the Board determines, acting reasonably, that such substitution or replacement is not practicable or impairs or does not substantially preserve the rights of holders of Options;
- (c) the Board determines, acting reasonably, that such substitution or replacement would give rise to adverse tax results to holders of Options; or
- (d) the Replacement Securities are not (or, upon the occurrence of the Transaction, will not be) listed and posted for trading on a recognizable stock exchange;

the outstanding Options shall become fully vested and may be exercised by the Optionholder (including such part, if any, thereof which, but for this Section 8.2, would not otherwise be able to be exercised) at any time after the Optionholder receives written notice from the Company of such accelerated vesting and prior to the occurrence of the Transaction; provided, however, that such vesting or exercise shall be, unless otherwise determined in advance by the Board, effective immediately prior to, and shall be conditional on, the consummation of such Transaction. Any Options that have not been exercised pursuant to this Section 8.2 shall be forfeited and cancelled without compensation to the holder thereof upon the consummation of such Transaction. If for any reason such Transaction is not consummated, any Common Shares purchased by the Optionholder for the purposes of participating in the Transaction or upon the exercise of an Option whose vesting has been accelerated pursuant to this Section 8.2 shall be and shall be deemed to be cancelled and returned to the Company, shall be added back to the number of Common Shares, if any, remaining unexercised under the Option, and upon presentation to the Company of share certificates or other evidence of ownership representing such Common Shares properly endorsed for transfer back to the Company, the Company shall refund to the Optionholder all consideration paid by him in the initial purchase thereof.

- 8.3 Appropriate adjustments as regards Options granted or to be granted, in the number of Common Shares optioned and in the Exercise Price, shall be made by the Board to give effect to adjustments in the number of Common Shares resulting from subdivisions, consolidations or reclassifications of the Common Shares, or other relevant changes in the Company. The appropriate adjustment in any particular circumstance shall be conclusively determined by the Board in its sole discretion, subject to approval by the Shareholders and to acceptance by the Exchange, respectively, if applicable.
- 8.4 For greater certainty, nothing in this Article 8 shall in any way affect or derogate from the ability of the Board to accelerate the vesting of Options at any time in its sole discretion as provided for in Section 3.1(e).

## **9. Amendment or Discontinuance of Plan**

- 9.1 Subject to Sections 9.2, 9.3 and 9.4, the Board may, at any time and from time to time, without the approval of the holders of Common Shares or any other voting securities of the Company, suspend, discontinue or amend the Plan or an Option.
- 9.2 Notwithstanding Section 9.1, the Board may not, without the approval of the holders of a majority of Common Shares and other voting securities of the Company present and voting in person or by proxy at a meeting of Shareholders, amend the Plan or an Option to:
  - (a) increase the number of Common Shares, or the percentage of the issued and outstanding Common Shares, issuable pursuant to the Plan;

- (b) make any amendment that would reduce the Exercise Price of an outstanding Option (including a cancellation and reissue of an Option that constitutes a reduction of the Exercise Price);
- (c) extend the Expiry Date of any Option granted under the Plan beyond the Expiry Date of the Option determined at the date of grant in accordance with the Plan, except as provided for in Section 5.2 with respect to an Expiry Date that occurs during a Blackout Period;
- (d) expanding the categories of individuals contained in the definition of "Eligible Person" who are eligible to participate in the Plan; or
- (e) amend the Plan to permit the transfer or assignment of Options, except to permit a transfer to a family member, an entity controlled by the holder of the Options or a family member, a charity or for estate planning or estate settlement purposes,

unless the change to the Plan or an Option results from the application of Article 8.

9.3 Unless an Optionholder otherwise agrees, the Board may not suspend, discontinue or amend the Plan or amend any outstanding Option in a manner that would adversely alter or impair any Option previously granted to an Optionholder under the Plan, and any such suspension, discontinuance or amendment of the Plan or amendment to an Option shall apply only in respect of Options granted on or after the date of such suspension, discontinuance or amendment. No suspension, discontinuance or amendment of the Plan or amendment of an Option may contravene the requirements of the Exchange or any securities commission or regulatory body to which the Plan, the Option or the Company is now or may hereafter be subject.

9.4 The Board may not amend any provision of this Article 9 without the approval of the holders of a majority of Common Shares and other voting securities of the Company present and voting in person or by proxy at a meeting of Shareholders.

## **10. Accounts and Statements**

10.1 The Company shall maintain records of the details of each Option granted to each Optionholder under the Plan. Upon request therefor from an Optionholder and at such other times as the Company shall determine, the Company shall furnish the Optionholder with a statement setting forth details of his Options. Such statement shall be deemed to have been accepted by the Optionholder as correct unless written notice to the contrary is given to the Company within 10 days after such statement is given to the Optionholder.

## **11. Notices**

11.1 Any payment, notice, statement, certificate or other instrument required or permitted to be given to an Optionholder or any person claiming or deriving any rights through him shall be given by:

- (a) delivering it personally to the Optionholder or the person claiming or deriving rights to the Optionholders, as the case may be; or

- (b) mailing it, postage paid (provided that the postal service is then in operation) or delivering it to the address which is maintained for the Optionholder in the Company's personnel records.

- 11.2 Any payment, notice, statement, certificate or instrument required or permitted to be given to the Company shall be given by mailing it, postage prepaid (provided that the postal service is then in operation) or delivering it to the Company at the following address:

PrairieSky Royalty Ltd.  
Suite 1700, 350 – 7<sup>th</sup> Avenue S.W.  
Calgary, Alberta T2P 3N9  
Attention: Corporate Secretary  
Facsimile: (587) 293-4001

- 11.3 Any payment, notice, statement, certificate or instrument referred to in Sections 11.1 or 11.2, if delivered, shall be deemed to have been given or delivered, on the date on which it was delivered or, if mailed (provided that the postal service is then in operation), shall be deemed to have been given or delivered on the second business day following the date on which it was mailed.

## **12. Shareholder and Regulatory Approval**

- 12.1 The Plan (and any amendments thereto as required under Article 9) shall be subject to such future approvals of the Shareholders and the Exchange as may be required under the terms of the Plan or by the Exchange from time to time. Any Options granted on terms requiring such approval shall be conditional upon such approval being given and no such Options may be exercised until such approval is given.

## **13. Withholding Taxes**

- 13.1 Notwithstanding anything else in the Plan, any issuance of Common Shares or exercise of Options pursuant to the Plan shall be subject to and paid after deduction of any withholdings or deductions required by law in such manner as may be determined by the Company. For greater certainty, prior to issuing and delivering Common Shares to an Optionholder exercising an Option pursuant to Section 7.1, the Company may require the Optionholder to deliver payment of an amount determined by the Company as security for any tax withholding or remittance obligations of the Optionholder or the Company arising under applicable law, which payment may be waived by the Company if another arrangement acceptable to the Company to secure the payment of such obligations has been entered into by the parties.

## **14. U.S. Tax Considerations**

- 14.1 The terms of the Plan and Options granted hereunder to Eligible Persons subject to taxation under the United States Internal Revenue Code of 1986, as amended, shall be determined by taking into consideration the Special Appendix to the Plan setting forth special provisions applicable to such persons.

## **15. Miscellaneous**

- 15.1 The section headings contained herein are for convenience only and shall not affect the construction hereof.

- 15.2 Any holder of an Option shall not possess any rights of ownership as a Shareholder with respect to any of the Common Shares covered by such Option including, for greater certainty and without limitation, the right to receive dividends on such Common Shares and the right to exercise voting rights in respect of such Common Shares, until such holder shall have exercised such Option in accordance with the terms of the Plan and the issuance of the Common Shares by the Company.
- 15.3 Nothing in the Plan, any Grant Agreement or any Option shall confer upon any Optionholder any right to continue in the employ of the Company or affect in any way the right of the Company to terminate his or her employment at any time; nor shall anything in the Plan or any Option be deemed or construed to constitute an agreement, or any expression of intent, on the part of the Company to extend the employment of any Optionholder beyond the time that he or she would normally be retired pursuant to the provisions of any present or future retirement plan of the Company or any present or future retirement policy of the Company, or beyond the time at which he or she would otherwise be retired pursuant to the provisions of any contract of employment of the Company.
- 15.4 To the extent required by law or regulatory policy or necessary to allow Common Shares issued on exercise of an Option to be free of resale restrictions, the Company shall report the grant, exercise or termination of the Option to the Exchange and the appropriate securities regulatory authorities.
- 15.5 All expenses in connection with the Plan shall be borne by the Company.
- 15.6 Whenever used herein words importing the masculine gender shall include the feminine and neuter genders and vice versa.
- 15.7 The Plan shall be governed by, construed and interpreted in accordance with the laws of the Province of Alberta.
- 15.8 If any provision of the Plan or part hereof is determined to be void or unenforceable in whole or in part, such determination shall not affect the validity or enforcement of any other provision or part thereof.

**Special Appendix  
to  
STOCK OPTION PLAN**

**Special Provisions Applicable to Optionholders Subject to taxation under  
the United States Internal Revenue Code**

This special appendix sets forth special provisions of the Plan that apply to Optionholders subject to taxation under the United States Internal Revenue Code of 1986, as amended.

**1. Definitions**

For purposes of this Special Appendix:

- 1.1 "**Code**" means the United States Internal Revenue Code of 1986, as amended.
- 1.2 "**Section 409A**" means Section 409A of the Code and any applicable regulatory guidance issued thereunder.
- 1.3 "**US Optionholder**" means an Optionholder whose compensation from the Company or its subsidiaries is subject to taxation under the Code.

**2. Compliance with Section 409A**

- 2.1 **In General.** Notwithstanding any provision of the Plan to the contrary, it is intended that with respect to any US Optionholder, such US Optionholder's participation in the Plan shall be exempt from Section 409A and in a manner which does not subject the US Optionholder's interests in the Plan to accelerated or additional tax under Section 409A (and all provisions of the Plan shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A). If any grant to a US Optionholder or exercise, dividend or distribution hereunder could cause the application of accelerated or additional tax under Section 409A, such grant, exercise, dividend or distribution shall be deferred if and to the extent deferral will make such grant, exercise, dividend or distribution compliant with Section 409A; otherwise such grant, exercise, dividend or distribution shall be restructured, to the extent possible, in a manner determined by the Board that does not cause such an accelerated or additional tax. Each US Optionholder is solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on or for the account of such US Optionholder in connection with the Plan (including any taxes and penalties under Section 409A), and neither the Company nor any of its affiliates shall have any obligation to indemnify or otherwise hold such US Optionholder (or any beneficiary) harmless from any or all of such taxes or penalties.
- 2.2 **Modification of Options.** Notwithstanding any provision of the Plan to the contrary and with respect to any US Optionholder, no Option may be extended beyond the Blackout Expiry Date and in no event following the 10<sup>th</sup> anniversary of the date of grant.
- 2.3 **Exercise Price:** Notwithstanding any other provision of the Plan, so long as at the time of the grant of an Option the Common Shares are "readily tradable" as determined under United States Treasury Regulation Section 1.409A-1(b)(5)(vi)(G), the Exercise Price shall be the closing sale price of the Common Shares reported on the primary securities exchange on which the Common Shares are listed on the last business day on which such exchange is open for trading prior to the date of grant of such Option, and if at the time of grant the Common Shares are not "readily tradable" as determined under United States Treasury Regulation Section 1.409A-1(b)(5)(vi)(G), the Exercise Price shall be determined by the

reasonable application of a reasonable valuation method in accordance with Treasury Regulation Section 1.409A-1(b)(5)(iv)(B).

**3. Adjustments to Options.**

- 3.1 Notwithstanding the Plan or any provision of the Option Agreement to the contrary, in connection with any adjustment to the Options, the number of Common Shares deliverable on the exercise of an Option held by a US Optionholder and the Exercise Price of an Option held by a US Optionholder shall be adjusted in a manner intended to keep the Options exempt from Section 409A.

**4. Amendment of Appendix**

- 4.1 The Board shall retain the power and authority to amend or modify this Appendix to the extent the Board in its sole discretion deems necessary or advisable to comply with any guidance issued under Section 409A. Such amendments may be made without Shareholder approval or the approval of any individual Optionholder.