



PrairieSky Royalty Ltd.

Interim Condensed Consolidated Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2017

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

(millions)		As at September 30, 2017	As at December 31, 2016
<b>Assets</b>			
Current Assets			
Cash and cash equivalents		\$ 102.0	\$ 34.0
Accounts receivable and accrued revenue	(Note 4)	34.5	42.5
Prepays		1.0	0.8
		137.5	77.3
Royalty assets, net	(Note 5)	806.5	857.6
Exploration and evaluation assets	(Note 6)	1,402.3	1,185.5
Deposit	(Note 6)	-	15.0
Other assets		1.0	3.9
Goodwill		631.0	631.0
		\$ 2,978.3	\$ 2,770.3
<b>Liabilities and Shareholders' Equity</b>			
Current Liabilities			
Accounts payable and accrued liabilities	(Note 7)	\$ 17.1	\$ 19.4
Income tax payable		6.9	-
Dividend payable	(Note 8)	14.8	13.7
		38.8	33.1
Share-based compensation payable	(Note 9)	4.3	3.8
Deferred income taxes		200.2	198.4
		243.3	235.3
<b>Shareholders' Equity</b>			
Shareholders' capital	(Note 8)	3,339.0	3,071.2
Paid in surplus		2.6	2.9
Deficit		(606.6)	(539.1)
<b>Total Shareholders' Equity</b>		<b>2,735.0</b>	<b>2,535.0</b>
		\$ 2,978.3	\$ 2,770.3

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME  
(UNAUDITED)**

(millions, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
<b>Revenues</b>				
Royalty revenue	\$ 54.2	\$ 52.2	\$ 196.7	\$ 138.6
Other revenue	17.5	7.1	57.5	17.7
	<b>71.7</b>	59.3	<b>254.2</b>	156.3
<b>Expenses</b>				
Production and mineral taxes	1.8	1.3	4.5	3.3
Depreciation, depletion and amortization (Note 5)	40.8	40.9	129.3	122.6
Exploration and evaluation (Note 6)	0.7	2.6	4.7	5.4
Administrative (Note 10)	8.4	7.6	23.6	22.9
Net Earnings Before Finance Items and Income Taxes	<b>20.0</b>	6.9	<b>92.1</b>	2.1
<b>Finance Items</b>				
Finance income	(0.4)	(0.6)	(0.9)	(1.8)
Finance expense	-	-	0.1	0.2
<b>Net Earnings Before Income Tax</b>	<b>20.4</b>	7.5	<b>92.9</b>	3.7
Income tax expense (recovery) (Note 11)	1.0	(0.4)	12.2	(0.2)
<b>Net Earnings and Comprehensive Income</b>	<b>\$ 19.4</b>	\$ 7.9	<b>\$ 80.7</b>	\$ 3.9
<b>Net Earnings per Common Share</b>				
Basic and Diluted (Note 8)	<b>\$ 0.08</b>	\$ 0.03	<b>\$ 0.34</b>	\$ 0.02

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(UNAUDITED)**

(millions)	Shareholders' Capital	Paid In Surplus	Deficit	Total Shareholders' Equity
<b>Balance at December 31, 2016</b>	<b>\$ 3,071.2</b>	<b>\$ 2.9</b>	<b>\$ (539.1)</b>	<b>\$ 2,535.0</b>
Net earnings	-	-	80.7	80.7
Common shares issued:				
Pursuant to bought deal offering	288.9	-	-	288.9
Share issue costs, net of tax	(8.8)	-	-	(8.8)
Pursuant to stock option plan	1.1	(1.8)	-	(0.7)
Pursuant to acquisition	1.6	-	-	1.6
Common shares repurchased	(15.0)	-	(16.2)	(31.2)
Share-based compensation	-	1.5	-	1.5
Dividends on common shares	-	-	(132.0)	(132.0)
<b>Balance at September 30, 2017</b>	<b>\$ 3,339.0</b>	<b>\$ 2.6</b>	<b>\$ (606.6)</b>	<b>\$ 2,735.0</b>

(millions)	Shareholders' Capital	Paid In Surplus	Deficit	Total Shareholders' Equity
<b>Balance at December 31, 2015</b>	<b>\$ 3,067.8</b>	<b>\$ 1.8</b>	<b>\$ (359.4)</b>	<b>\$ 2,710.2</b>
Net earnings	-	-	3.9	3.9
Common shares issued:				
Share issue costs, net of tax	0.1	-	-	0.1
Pursuant to stock dividend plan	0.6	-	-	0.6
Pursuant to dividend reinvestment plan	15.6	-	-	15.6
Common shares repurchased	(8.5)	-	(7.6)	(16.1)
Share-based compensation	-	0.9	-	0.9
Dividends on common shares	-	-	(145.6)	(145.6)
<b>Balance at September 30, 2016</b>	<b>\$ 3,075.6</b>	<b>\$ 2.7</b>	<b>\$ (508.7)</b>	<b>\$ 2,569.6</b>

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(millions)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
<b>Operating Activities</b>				
Net earnings	\$ 19.4	\$ 7.9	\$ 80.7	\$ 3.9
Depreciation, depletion and amortization	(Note 5) 40.8	40.9	129.3	122.6
Exploration and evaluation	(Note 6) 0.7	2.6	4.7	5.4
Deferred income taxes	(Note 11) 1.7	(0.4)	5.0	(0.2)
Share-based compensation, net of cash settlements	(Note 9) 3.3	2.4	1.7	4.1
Other non-cash items	(Note 5 & 6) -	(0.2)	(15.2)	(0.2)
Net change in other assets	0.9	1.0	2.9	2.8
Funds from operations	66.8	54.2	209.1	138.4
Net change in non-cash working capital	(Note 14) 12.5	14.2	12.3	8.0
Cash From Operating Activities	79.3	68.4	221.4	146.4
<b>Investing Activities</b>				
Royalty asset acquisitions	(Note 5) (2.6)	-	(37.5)	(21.9)
Exploration and evaluation acquisitions	(Note 6) (17.7)	(4.8)	(245.4)	(10.5)
Reclassification of deposit to asset acquisitions	(Note 6) -	-	15.0	-
Royalty business combination	-	(2.7)	-	11.8
Net change in non-cash working capital	(Note 14) -	-	(0.2)	(0.6)
Cash Used in Investing Activities	(20.3)	(7.5)	(268.1)	(21.2)
<b>Financing Activities</b>				
Dividends on common shares	(Note 8) (44.3)	(41.1)	(130.9)	(140.4)
Share issuance, net of costs	(Note 8) -	-	276.9	0.2
Stock option exercise	(Note 8) (0.7)	-	(0.7)	-
Common shares repurchased	(Note 8) (9.5)	(10.1)	(31.2)	(16.1)
Net change in non-cash working capital	(Note 14) 0.6	-	0.6	(0.3)
Cash From (Used in) Financing Activities	(53.9)	(51.2)	114.7	(156.6)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>5.1</b>	<b>9.7</b>	<b>68.0</b>	<b>(31.4)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>96.9</b>	<b>149.7</b>	<b>34.0</b>	<b>190.8</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$102.0</b>	<b>\$159.4</b>	<b>\$ 102.0</b>	<b>\$159.4</b>

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

### 1. NATURE OF OPERATIONS

PrairieSky Royalty Ltd. (“PrairieSky” or the “Company”) has a geologically and geographically diverse portfolio of fee simple mineral title, crude oil and natural gas gross overriding royalty interests and other acreage spanning Alberta, Saskatchewan, British Columbia and Manitoba (collectively, the “Royalty Properties”). The Company is focused on encouraging third parties to actively develop the Royalty Properties, while strategically seeking additional petroleum and natural gas royalty assets that provide the Company with medium-term to long-term value enhancement potential. The Company does not directly conduct operations to explore for, develop or produce petroleum or natural gas; rather, third party development of the titled or leased lands provides the Company with royalty revenue as petroleum and natural gas are produced from such properties.

The Company’s shares are publicly traded on the Toronto Stock Exchange (“TSX”) under the stock symbol “PSK”. The location of the head and registered office of the Company is Suite 1700, 350 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3N9.

### 2. BASIS OF PRESENTATION

#### A. STATEMENT OF COMPLIANCE

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” and have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements. Certain information and disclosures normally included in the audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been condensed or omitted. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2016.

These unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for share-based payment transactions. The unaudited interim condensed consolidated financial statements have been prepared on a going concern basis and amounts are in millions of Canadian dollars unless otherwise stated.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Company’s Audit Committee on October 30, 2017.

#### B. ESTIMATES

The timely preparation of the unaudited interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

In preparing these unaudited interim condensed consolidated financial statements, the judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited annual consolidated financial statements as at and for the year ended December 31, 2016.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

#### New Standards Issued Not Yet Adopted

On April 26, 2016, the International Accounting Standards Board (“IASB”) issued its final amendments to IFRS 15, “Revenue from Contracts with Customers”, which replaces IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to opening equity at the date of initial application for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company is completing its review of its various revenue streams and underlying contracts with customers to determine the impact, if any, that the standard will have on the Company’s financial statements. The Company will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15 commencing in the first quarter of 2018, including disclosing the Company’s disaggregated revenue streams by product type.

On July 24, 2014, the IASB issued IFRS 9, “Financial Instruments”, which replaces IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard introduces new requirements for the classification and measurement of financial assets and liabilities. Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 amends the impairment model by introducing a new model for calculating impairment and includes a new hedge accounting model that better reflects risk management activities in the financial statements of entities that elect to apply hedge accounting. IFRS 9 will apply retrospectively, for annual periods beginning on or after January 1, 2018 and early adoption is permitted. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the standard to have a material impact on the Company’s financial statements.

On January 13, 2016, the IASB issued IFRS 16, “Leases”. The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019. Under the new standard, companies will recognize new assets and liabilities, bringing off-balance sheet leasing arrangements onto the balance sheet. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company does not expect the standard to have a material impact on the financial statements.

### 4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	As at September 30, 2017	As at December 31, 2016
Trade receivables and accrued revenue	\$ 30.5	\$ 38.7
Current portion of royalty note receivable	3.8	3.7
Production and mineral taxes receivable	0.1	-
Interest receivable	0.1	0.1
	<b>\$ 34.5</b>	<b>\$ 42.5</b>

Trade receivables and accrued revenue relate to lease and royalty payments receivable. The analysis of accounts receivable and accrued revenue that are past due but not impaired is as follows:

	Total	Neither past due nor impaired	Past due but not impaired	
			4 - 6 Months	7 - 12 Months
<b>As at September 30, 2017</b>	\$ 34.5	\$ 34.4	\$ 0.1	\$ -
As at December 31, 2016	\$ 42.5	\$ 42.3	\$ 0.1	\$ 0.1

At September 30, 2017, there was no allowance or provision made for doubtful accounts. In determining the recoverability of trade receivables that are past due but not impaired, the Company considers the age of the outstanding receivables and the credit worthiness of the counterparties. See Note 13 for further information about credit risk.

## 5. ROYALTY ASSETS, NET

	As at September 30, 2017	As at December 31, 2016
<b>Cost</b>		
Balance, Beginning of Period	\$ 1,141.2	\$ 1,039.7
Assets acquired through business combination	-	20.6
Other asset acquisitions	38.5	45.2
Transfers from exploration & evaluation assets	39.7	35.7
<b>Balance, End of Period</b>	<b>1,219.4</b>	<b>1,141.2</b>
<b>Accumulated Depletion, Depreciation and Amortization</b>		
Balance, Beginning of Period	(283.6)	(121.1)
Depletion, depreciation and amortization	(129.3)	(162.5)
<b>Balance, End of Period</b>	<b>(412.9)</b>	<b>(283.6)</b>
<b>Net Book Value, End of Period</b>	<b>\$ 806.5</b>	<b>\$ 857.6</b>

For the three and nine month periods ended September 30, 2017, royalty assets acquired totaled \$2.6 million (three months ended September 30, 2016 - \$0.2 million) and \$38.5 million (nine months ended September 30, 2016 - \$22.1 million), respectively, which are primarily acquisitions of fee land and various gross overriding royalty ("GORR") acquisitions, including a producing GORR on the SAGD thermal oil project at Lindbergh, Alberta (the "Lindbergh Acquisition") for \$34.7 million in the current year. During the nine month period ended September 30, 2017, the Company provided a lease amendment in exchange for royalty assets valued at \$1.0 million, which is included in the \$38.5 million noted above. During the three and nine month periods ended September 30, 2016, there was a non-monetary acquisition of fee lands valued at \$0.2 million.

## 6. EXPLORATION AND EVALUATION ASSETS

	As at September 30, 2017	As at December 31, 2016
<b>Cost</b>		
Balance, Beginning of Period	\$ 1,185.5	\$ 1,148.4
Assets acquired through business combination	-	27.8
Other asset acquisitions	261.2	51.2
Transfers to royalty assets	(39.7)	(35.7)
Land expiries	(4.7)	(6.2)
<b>Balance, End of Period</b>	<b>\$ 1,402.3</b>	<b>\$ 1,185.5</b>

For the three and nine month periods ended September 30, 2017, the Company acquired \$17.7 million (three months ended September 30, 2016 - \$4.8 million) and \$261.2 million (nine months ended September



30, 2016 - \$10.5 million) in E&E assets, respectively. Included in asset acquisitions for the nine months ended September 30, 2017 was \$215.2 million of value attributed to undeveloped drilling locations on current and future phases of the Lindbergh Acquisition and seismic. A \$15.0 million deposit paid in December 2016 was used to fund a portion of the Lindbergh Acquisition purchase price. During the nine months ended September 30, 2017, the Company also acquired a non-producing GORR in exchange for 53,616 common shares valued at \$1.6 million and provided a lease amendment in exchange for exploration and evaluation assets valued at \$14.2 million.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at September 30, 2017	As at December 31, 2016
Trade payables	\$ 1.1	\$ 2.9
Production and mineral taxes payable	4.3	6.4
Accrued liabilities	11.7	10.1
	<b>\$ 17.1</b>	<b>\$ 19.4</b>

Accrued liabilities primarily include amounts related to cash settled share-based compensation accruals.

## 8. SHARE CAPITAL

### AUTHORIZED

The authorized share capital of the Company includes an unlimited number of common shares and an unlimited number of preferred shares issuable in series. The holders of the common shares are entitled to one vote in respect of each common share held at all meetings of shareholders, except meetings at which only holders of a specified class of share have the right to vote. The common shares have no par value.

### ISSUED AND OUTSTANDING

	As at September 30, 2017		As at December 31, 2016	
	Number of Shares (millions)	Amount (\$ millions)	Number of Shares (millions)	Amount (\$ millions)
Common Shares Outstanding, Beginning of Period	228.0	\$ 3,071.2	228.2	\$ 3,067.8
Issued pursuant to bought deal offering	9.2	288.9	-	-
Share issue costs (net of \$3.2 million tax effect in 2017)	-	(8.8)	-	0.1
Issued pursuant to stock option plan (net of withholding tax)	0.1	1.1	-	0.1
Issued pursuant to an acquisition (Note 6)	0.1	1.6	-	-
Issued pursuant to dividend reinvestment plan	-	-	0.8	15.6
Issued pursuant to stock dividend program	-	-	-	0.6
Common shares repurchased	(1.1)	(15.0)	(1.0)	(13.0)
<b>Common Shares Outstanding, End of Period</b>	<b>236.3</b>	<b>\$ 3,339.0</b>	<b>228.0</b>	<b>\$ 3,071.2</b>

### COMMON SHARES

On January 6, 2017, the Company completed a bought deal prospectus offering of common shares. Pursuant to the offering, the Company issued 9.2 million common shares, including 1.2 million common shares issued pursuant to the exercise in full of the over-allotment option granted to the underwriters at a price of \$31.40 per common share for aggregate gross proceeds of \$288.9 million and net proceeds, after fees and expenses, of \$276.9 million.

## NORMAL COURSE ISSUER BID (“NCIB”)

On May 2, 2017, the Company announced the approval of the renewal of its NCIB by the TSX. The NCIB allows the Company to purchase for cancellation up to a maximum of 1,600,000 common shares over the twelve month period which commenced on May 4, 2017 and expiring no later than May 3, 2018. PrairieSky intends to allocate up to \$44.0 million to repurchase common shares under the NCIB over such twelve month period. Purchases will be 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.

During the three month period ended September 30, 2017, the Company purchased for cancellation 333,200 common shares (September 30, 2016 - 390,500 common shares) at an average cost of \$28.58 per common share (September 30, 2016 - \$25.98 per common share) for total consideration of \$9.5 million (September 30, 2016 - \$10.1 million). The total cost paid, including commissions and fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased and the excess of \$4.8 million (September 30, 2016 - \$4.9 million) was charged to the deficit.

During the nine month period ended September 30, 2017, the Company purchased for cancellation 1,065,600 common shares (September 30, 2016 - 633,000 common shares) at an average cost of \$29.27 per common share (September 30, 2016 - \$25.50) for total consideration of \$31.2 million (September 30, 2016 - \$16.1 million). The total cost paid, including commissions and fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased and the excess of \$16.2 million (September 30, 2016 - \$7.6 million) was charged to the deficit.

## DIVIDENDS

During the three months ended September 30, 2017, PrairieSky declared dividends of \$44.3 million (September 30, 2016 - \$41.1 million) or \$0.1875 per common share (September 30, 2016 - \$0.1800) and paid dividends of \$44.3 million (September 30, 2016 - \$41.1 million) or \$0.1875 per common share (September 30, 2016 - \$0.1800).

During the nine months ended September 30, 2017, PrairieSky declared dividends of \$132.0 million (September 30, 2016 - \$145.6 million) or \$0.5575 per common share (September 30, 2016 - \$0.63666) and paid dividends of \$130.9 million (September 30, 2016 - \$140.4 million) or \$0.5550 per common share (September 30, 2016 - \$0.68499). During the nine months ended September 30, 2017, all dividends were paid in cash. For the nine months ended September 30, 2016, \$140.4 million was settled in cash and an additional \$16.2 million was settled in common shares in lieu of cash dividends under the dividend reinvestment plan (“DRIP”) and stock dividend plan (“SDP”). The DRIP and the SDP were cancelled effective for the March 31, 2016 record date.

On February 27, 2017, the Company increased its annual dividend by \$0.03 per common share to \$0.75 per common share per annum. On September 14, 2017, the Board of Directors declared a dividend of \$0.0625 per common share or \$14.8 million payable on October 16, 2017 to common shareholders of record as of September 29, 2017.

## EARNINGS PER COMMON SHARE

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Net Earnings	\$ 19.4	\$ 7.9	\$ 80.7	\$ 3.9
Number of Common Shares:				
Weighted Average Common Shares Outstanding - Basic	236.4	228.6	236.6	228.7
Effect of Dilutive Securities	0.3	0.2	0.3	0.2
Weighted Average Common Shares Outstanding - Diluted	236.7	228.8	236.9	228.9
Net Earnings per Common Share - Basic and Diluted	\$ 0.08	\$ 0.03	\$ 0.34	\$ 0.02

## 9. SHARE-BASED COMPENSATION PLANS

The Company has a number of share-based compensation arrangements under which the Company awards various types of long-term incentive grants to eligible employees, officers and directors. They include stock options, performance share units (“PSUs”), restricted share units (“RSUs”), and deferred share units (“DSUs”).

The Company accounts for stock options granted to Company employees and officers as equity-settled share-based payment transactions and accrues compensation costs over the vesting period based on the fair values determined at the grant date.

The Company accounts for its share unit awards, PSUs, RSUs and DSUs, held by Company employees, officers and directors as cash-settled share-based payment transactions and accrues compensation costs and dividends over the vesting period based on the fair value at each reporting date. The Company may make an election to settle vested share unit awards with either a cash payment equal to the five-day weighted average trading price for the common shares multiplied by the number of common shares or issue the number of common shares. PSUs vest following the completion of a three year performance period provided the officer remains actively employed with the Company on the vesting date. RSUs granted to employees at the time of the initial public offering (“IPO”) on May 29, 2014, vested 30% after the second anniversary of the date of grant and the remaining 70% vested after the third anniversary, while subsequent grants vest evenly over a three year period, provided the employee remains actively employed with the Company on the vesting date. RSUs granted to officers of the Company at the time of the IPO fully vested three years from the date of grant, while subsequent grants may vest evenly over a two or three year period provided the officer remains actively employed with the Company on the vesting date. DSUs are fully vested as of the grant date.

The Company has recognized the following share-based compensation costs:

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Compensation costs of transactions classified as equity-settled	\$ 0.6	\$ 0.3	\$ 1.5	\$ 0.9
Compensation costs of transactions classified as cash-settled	2.7	2.1	6.6	4.9
<b>Total share-based compensation expense</b>	<b>\$ 3.3</b>	<b>\$ 2.4</b>	<b>\$ 8.1</b>	<b>\$ 5.8</b>

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

	As at September 30, 2017	As at December 31, 2016
Liability for unvested cash-settled plans	\$ 9.2	\$ 9.7
Liability for vested cash-settled plans	2.8	2.1
<b>Liability for cash-settled plans</b>	<b>\$ 12.0</b>	<b>\$ 11.8</b>

As at September 30, 2017, \$7.7 million (December 31, 2016 - \$8.0 million) of the liability for cash-settled plans, which represents the value of the PSUs, RSUs and DSUs that are vested or will vest in the next twelve months, is included in accounts payable and accrued liabilities. The remaining \$4.3 million (December 31, 2016 - \$3.8 million) is a long-term liability and is reported as share-based compensation payable.

## A. STOCK OPTIONS

The Company has a Stock Option Plan that provides for granting of stock options to officers and certain employees. Stock options vest over a three year period and expire five years after the date of the grant.

The following table summarizes the change in stock options outstanding:

	Number (thousands)	Weighted average exercise price (\$)
Issued and Outstanding, December 31, 2015	793.3	29.57
Granted	371.3	22.55
Exercised	(15.2)	(25.90)
Forfeited	(116.8)	(31.75)
<b>Issued and Outstanding, December 31, 2016</b>	<b>1,032.6</b>	<b>26.85</b>
Granted	259.1	32.03
Exercised	(481.0)	(27.19)
Forfeited	(1.0)	(32.03)
<b>Issued and Outstanding, September 30, 2017</b>	<b>809.7</b>	<b>28.30</b>

The average share price on the date of the option exercises was \$32.98 during the first nine months of 2017. There were no option exercises in the first nine months of 2016.

The following weighted average assumptions were used to determine the fair value of stock options granted by the Company during the period:

	September 30, 2017	September 30, 2016
Risk free interest rate	1.07%	0.73%
Dividend yield	2.25%	5.76%
Expected volatility rate based on historical volatility	34%	36%
Forfeiture rate	6.4%	6.4%
Expected life	5 yrs	5 yrs
Weighted average grant price	\$32.03	\$22.55
Fair value per option on grant date	\$7.87	\$3.62

The following table summarizes information regarding stock options outstanding at September 30, 2017:

Range Of Exercise Prices Per Common Share	Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price for options outstanding (\$/share)	Number of options exercisable	Weighted average exercise price for options exercisable (\$/share)	Weighted average fair value for options outstanding (\$/share)
\$22.50-\$25.90	298,021	3.25	22.95	25,981	22.55	3.77
\$30.80-\$32.03	511,724	3.37	31.42	149,042	30.81	5.92

The following table summarizes information regarding stock options outstanding at December 31, 2016:

Range Of Exercise Prices Per Common Share	Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price for options outstanding (\$/share)	Number of options exercisable	Weighted average exercise price for options exercisable (\$/share)	Weighted average fair value for options outstanding (\$/share)
\$22.50-\$28.00	771,168	3.18	25.51	238,636	28.00	3.71
\$30.80-\$30.88	261,404	3.16	30.81	78,421	30.81	3.93

For the three and nine month periods ended September 30, 2017, administrative expense includes \$0.6 million (three months ended September 30, 2016 - \$0.3 million) and \$1.5 million (nine months ended September 30, 2016 - \$0.9 million), respectively, of compensation costs related to stock options.

## B. PERFORMANCE SHARE UNITS

PSUs have been granted to officers and entitle the officer to receive upon vesting a cash payment that is equal to the value of one common share of the Company for each PSU held, plus accrued dividends over the period from the date of grant to vesting, or the equivalent number of shares at the election of the Company.

The ultimate value of the PSUs will depend upon the Company's performance relative to predetermined corresponding performance targets measured over a three-year period. Performance is based on the Company's total shareholder return ("TSR"), defined as share price appreciation plus dividends, relative to the TSR for a predetermined performance peer group. 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.

The following table summarizes information related to the PSUs:

<i>Outstanding PSUs (thousands of units)</i>	September 30, 2017	December 31, 2016
Issued and Outstanding, Beginning of Period	204.9	140.8
Granted	114.7	89.4
Deemed eligible to vest	-	(11.1)
Forfeited	-	(19.7)
Exercised	(43.9)	-
Units, in lieu of dividends	5.7	5.5
<b>Issued and Outstanding, End of Period</b>	<b>281.4</b>	<b>204.9</b>

For the three and nine month periods ended September 30, 2017, the Company recorded compensation costs of \$1.9 million (three months ended September 30, 2016 - \$0.9 million) and \$4.2 million (nine months ended September 30, 2016 - \$1.0 million), respectively, related to outstanding PSUs. The market common share price used in the PSU fair value calculation at September 30, 2017 was \$31.93 (September 30, 2016 - \$26.75). The remaining weighted average life is 1.5 years.

### C. RESTRICTED SHARE UNITS

RSUs have been granted to officers and eligible employees and entitle the holder to receive upon vesting a cash payment that is equal to the value of one common share of the Company for each RSU held, plus accrued dividends over the period from the date of grant to vesting, or the equivalent number of shares at the election of the Company.

The following table summarizes information related to the RSUs:

<i>Outstanding RSUs (thousands of units)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Issued and Outstanding, Beginning of Period	<b>246.3</b>	206.2
Granted	<b>50.6</b>	118.6
Deemed eligible to vest	-	(5.5)
Forfeited	<b>(19.7)</b>	(24.7)
Exercised	<b>(132.5)</b>	(55.1)
Units, in lieu of dividends	<b>2.4</b>	6.8
<b>Issued and Outstanding, End of Period</b>	<b>147.1</b>	246.3

For the three and nine month periods ended September 30, 2017, the Company recorded compensation costs of \$0.5 million (three months ended September 30, 2016 - \$1.0 million) and \$1.6 million (nine months ended September 30, 2016 - \$2.9 million), respectively, related to outstanding RSUs. The market common share price used in the RSU fair value calculation at September 30, 2017 was \$31.93 (September 30, 2016 - \$26.75). The remaining weighted average life is 0.9 years.

### D. DEFERRED SHARE UNITS

Directors receive an annual compensation amount in DSUs and have the option to receive Board and Committee retainers and fees in the form of DSUs, which vest immediately. These DSUs are equivalent to a common share plus accrued dividends over the period from date of grant and vesting to the date of redemption and are settled in cash. DSUs can only be redeemed following departure from the Company and must be redeemed prior to December 15<sup>th</sup> of the year following departure. For the nine months ended September 30, 2017, three of the four independent Directors elected to receive all or a portion of their annual Board and Committee retainers and fees in the form of DSUs.

The following table summarizes information related to the DSUs:

<i>Outstanding DSUs (thousands of units)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Issued and Outstanding, Beginning of Period	<b>65.3</b>	33.0
Granted	<b>21.7</b>	30.2
Units, in lieu of dividends	<b>1.6</b>	2.1
<b>Issued and Outstanding, End of Period</b>	<b>88.6</b>	65.3

For the three and nine month periods ended September 30, 2017, the Company recorded compensation costs of \$0.3 million (three months ended September 30, 2016 - \$0.2 million) and \$0.8 million (nine months ended September 30, 2016 - \$1.0 million), respectively, related to outstanding DSUs. The market common share price used in the DSU fair value calculation at September 30, 2017 was \$31.93 (September 30, 2016 - \$26.75).

## 10. ADMINISTRATIVE EXPENSES

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Salaries and benefits	\$ 3.3	\$ 3.2	\$ 10.4	\$ 10.9
Share-based compensation (Note 9)	3.3	2.4	8.1	5.8
Office expense	1.0	1.2	2.5	3.8
Public company expense	0.2	0.2	1.2	0.8
Information technology and other	0.6	0.6	1.4	1.6
<b>Administrative Expenses</b>	<b>\$ 8.4</b>	<b>\$ 7.6</b>	<b>\$ 23.6</b>	<b>\$ 22.9</b>

## 11. INCOME TAXES

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Current tax expense (recovery)	\$ (0.7)	\$ -	\$ 7.2	\$ -
Deferred tax expense (recovery)	1.7	(0.4)	5.0	(0.2)
<b>Income tax expense (recovery)</b>	<b>\$ 1.0</b>	<b>\$ (0.4)</b>	<b>\$ 12.2</b>	<b>\$ (0.2)</b>

## 12. CAPITAL MANAGEMENT

The Company's objective when managing its capital structure is to maintain financial flexibility in order to distribute cash to shareholders in the form of dividends and share repurchases and cancellations after consideration of the Company's financial requirements for its business and future growth opportunities. As a royalty company, PrairieSky does not have capital expenditure commitments, which enhances its financial flexibility.

The Company's capital structure is comprised of shareholders' equity and working capital. The Company's capital structure is managed by taking into account operating activities, dividends paid to shareholders, common share repurchases, taxes, available Credit Facility (Note 13), share issuance costs and other factors. The Company's operating results and capital structure are impacted by the level of development activity by third parties on the Royalty Properties and the resultant royalty production volumes, level of costs incurred by the Company and commodity prices.

	As at September 30, 2017	As at December 31, 2016
Shareholders' equity	\$ 2,735.0	\$ 2,535.0
Working capital	98.7	44.2

The Company's capital structure is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of production, crude oil, natural gas and NGL prices, production and mineral tax expense, administrative expenses, income tax expense, and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, production expectations and other factors that in the Company's view could impact cash flow.

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### A. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of cash and cash equivalents, accounts receivable and accrued revenue, accounts payable and accrued liabilities, income tax payable and dividend payable approximate their carrying amount due to the short-term maturity of those instruments.

### B. RISKS ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

The Company is exposed to financial risks arising from its financial assets and liabilities. Financial risks include market risk (such as commodity price and interest rate risk), credit risk and liquidity risk.

#### Commodity Price Risk

Commodity price risk is the risk the Company will encounter fluctuations in its future royalty revenue with changes in commodity prices. Commodity prices for crude oil, natural gas and NGL are influenced by macroeconomic events that dictate the levels of supply and demand. The Company does not hedge its commodity price risk.

#### Interest Rate Risk

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.

At September 30, 2017, the Company had no interest bearing liabilities. The Company's royalty note receivable earns interest at a fixed rate. The cash balance on deposit at September 30, 2017 earns interest at variable rates.

#### 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. A substantial portion of the Company's accounts receivable are from royalty agreements with oil and gas industry operators and are subject to normal industry credit risks. The Company's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables. In addition, the Company takes certain of its production in kind to mitigate credit risk.

As at September 30, 2017, there was one counterparty whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance. For the periods presented, the Company does not have an allowance for doubtful accounts nor does it provide for any doubtful accounts.

#### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting a demand to fund financial liabilities as they come due. The Company manages its liquidity risk using cash and debt management programs. The Company has unused capacity under its Credit Facility, described below, for up to \$25 million.

The timing of expected cash outflows relating to accounts payable and accrued liabilities of \$17.1 million, income tax payable of \$6.9 million, and dividend payable of \$14.8 million is less than one year. Included in accounts payable and accrued liabilities is \$2.8 million related to vested cash settled share unit awards which may or may not be paid in the next year.

The Company has an unsecured \$25 million extendible operating credit facility (the "Credit Facility"). In May 2017, the Company extended the Credit Facility for an additional two year term, extending the maturity date



from May 29, 2018 to May 29, 2020. The Credit Facility includes borrowing options of Canadian prime rate-based advances, U.S. based rate advances, LIBOR loans, bankers' acceptances and letters of credit, and bears interest on a variable grid based on certain financial ratios, over the prevailing applicable rate for the type of loan. The Credit Facility is unsecured and does not have a borrowing base restriction. As at September 30, 2017, the Credit Facility is undrawn.

## 14. SUPPLEMENTARY INFORMATION

### NET CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Source (use) of cash:				
Accounts receivable and accrued revenue	\$ 11.2	\$ 1.6	\$ 8.0	\$ (8.9)
Prepays	0.5	0.7	(0.2)	(0.1)
Income tax receivable	-	12.8	-	19.1
Accounts payable and accrued liabilities	2.1	(0.9)	(2.0)	(3.0)
Income tax payable	(0.7)	-	6.9	-
Changes in non-cash working capital	\$ 13.1	\$ 14.2	\$ 12.7	\$ 7.1
Related to operating activities	12.5	14.2	12.3	8.0
Related to investing activities	-	-	(0.2)	(0.6)
Related to financing activities	0.6	-	0.6	(0.3)
Changes in non-cash working capital	\$ 13.1	\$ 14.2	\$ 12.7	\$ 7.1

### SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Interest Paid	\$ 0.1	\$ -	\$ 0.1	\$ 0.1
Interest Received	0.4	0.6	0.9	1.8
Income Tax Received	-	12.8	-	19.1

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

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James M. Estey<sup>(1)(2)(3)(4)</sup>  
Andrew M. Phillips  
Sheldon B. Steeves<sup>(2)(3)(4)</sup>  
Margaret A. McKenzie<sup>(3)(4)</sup>  
Grant Zawalsky<sup>(2)(4)</sup>

- (1) Chair of the Board.
- (2) Member of the Governance and Compensation Committee. Mr. Estey is the Chair of the Governance and Compensation Committee.
- (3) Member of the Audit Committee. Ms. McKenzie is the Chair of the Audit Committee.
- (4) Member of the Reserves Committee. Mr. Steeves is the Chair of the Reserves Committee. Mr. Estey is an ex-officio non-voting member of the Reserves Committee.

### OFFICERS

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Andrew M. Phillips, President & Chief Executive Officer  
Cameron M. Proctor, Chief Operating Officer  
Pamela Kazeil, Vice President, Finance & Chief Financial Officer  
Michelle L. Radomski, Vice-President, Land

### AUDITORS

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KPMG LLP

### BANKERS

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Toronto-Dominion Bank  
Canadian Imperial Bank of Commerce

### TORONTO STOCK EXCHANGE TRADING SYMBOL

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PSK

### INDEPENDENT RESERVE EVALUATORS

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GLJ Petroleum Consultants Ltd.

### TRANSFER AGENT

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TSX Trust Company

### ABBREVIATIONS

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bbls – barrels  
bbls/d – barrels per day  
boe – barrels of oil equivalent (6 mcf = 1 bbl)  
boe/d – barrels of oil equivalent per day  
mcf – thousand cubic feet  
mcf/d – thousand cubic feet per day  
mmcf – million cubic feet  
mmcf/d – million cubic feet per day  
NGL – natural gas liquids  
WTI – West Texas Intermediate

### CORPORATE OFFICE

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### CONTACT US

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