



TSX: PSK

2017 

Responsibility Report



HIGH MARGINS **ZERO** CAPITAL

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Forward-Looking Statements

Certain information contained in this Responsibility 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 advance our community investment processes and policies, modernize our workplace policies and practices and formalize education and training programs for succession candidates. Readers are cautioned not to place undue reliance on forward-looking statements as they are subject to a number of assumptions and known and unknown risks and uncertainties that may cause the actual results, performance or achievements of PrairieSky to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. 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 for a 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.



About PrairieSky Royalty Ltd.

PrairieSky Royalty Ltd. is a pure-play royalty company, receiving royalty revenues as petroleum and natural gas are produced from our 15.3 million acres of royalty properties, which span Western Canada from Northeast British Columbia to Western Manitoba. We have the largest independently owned portfolio of fee simple mineral title and oil and gas royalty interests in Canada.

PrairieSky owns 7.8 million acres of fee simple mineral title⁽¹⁾ lands and has 7.5 million acres of gross overriding royalty⁽²⁾ interests in Alberta, Saskatchewan, British Columbia and Manitoba. PrairieSky is focused on encouraging third parties to actively develop our royalty properties at no incremental cost or expense to PrairieSky. We do not directly conduct operations to explore for, develop or produce petroleum or natural gas.

(1) Fee Simple Mineral Title — Corporations and individuals own the mineral rights, which effectively represents ownership of the minerals and hydrocarbons below the surface. Owners of mineral rights can develop the mineral substances themselves or provide that opportunity to a third party, typically through a lease. No royalties are payable to the Crown on these lands. PrairieSky's royalty revenue is received from exploration and production companies with producing wells located on leased lands in accordance with the terms of the lease. A history of how PrairieSky came to own these mineral rights can be found on our website.

Our objective is to generate free cash flow and growth for our shareholders by encouraging third-party investment on our royalty properties. PrairieSky seeks to achieve this objective by: (i) focusing on organic growth of royalty revenue from our royalty properties; (ii) proactively monitoring and managing the portfolio of royalty properties to ensure third party adherence to lease terms and contractual provisions; (iii) managing controllable costs; and (iv) selectively pursuing strategic business development opportunities that are relatively low risk to the company and beneficial to shareholders. We intend to distribute the majority of annual free cash flow to shareholders in the form of dividends, and by repurchasing shares for cancellation.

(2) Gross Overriding Royalties — Agreement that provides the royalty owner with an entitlement to a share of production from the lands, typically over and above royalties payable to the lessor; which in most cases is the Crown. There is a finite life to these royalties, typically tied to the underlying term of the lease or license, which in most cases is when production from the wells ceases and the wells are abandoned.

KEY ASSETS



15.3 Million
acres

BUSINESS OPERATORS

Rights/lands leased to
→



340 Royalty
Payors

Producing
→



25,259 boe/d
Royalty production
\$345.7 million
Revenues

OUTPUTS



4 Provinces
across Western Canada



65 Employees

Our main activities are to:

- Lease mineral rights to third parties for exploration and development
- Monitor and manage mineral titles and overriding royalty interests
- Manage controllable costs
- Add to our portfolio of quality assets in a selective and disciplined manner

The Royalty Business Model

PrairieSky leases mineral rights to third parties. These third parties assume all costs and liabilities related to drilling and producing the resources including PrairieSky's entitlement to a share of the oil and gas production in the form of a royalty. PrairieSky does not conduct any drilling activity and is not responsible for making any capital or operating expenditures with respect to operations on our properties.

Our Competitive Advantage

PrairieSky offers several competitive advantages for operators as compared to leasing Crown (government) lands, the other major owner of mineral interests in Western Canada. We work with lessees to determine the appropriate leasing arrangement, can enter into leases on a shorter

turnaround time and can customize the term, royalty and capital commitments depending on the specific play type and associated economics. This allows for mutually beneficial arrangements with much shorter cycle times than going through a public auction for Crown lands, and provides lessees with certainty around their development schedules.

PrairieSky offers lessees access to our extensive technical expertise, including the geological and geophysical interpretations and drilling prospects we have generated across our vast land base. PrairieSky has seismic data available over much of our land base, which we can provide to lessees to support the execution of their exploration and drilling programs.

How PrairieSky Creates Value for Stakeholders

| ④ Shareholders | | | |
|---|--|---|---|
|  | De-risking investment in the oil and gas industry | No capital expenditures, operational costs or environmental liabilities | Return of cash flow through dividends and share buybacks |
| ④ Lessees/Operators | | | |
|  | Timely negotiation of leasing arrangements on available land | Mutually beneficial business approach to leasing | Access to one of the largest seismic databases in Canada |
| ④ Employees | | | |
|  | Fair remuneration | Rewarding work | Inclusive and safe workplace |
| ④ Environment & Safety | | | |
|  | No direct oil and gas operations | Pre-screening of operators | Contractual obligation around good operating practices and compliance with laws |
| ④ Communities/Society | | | |
|  | Business practices to ensure strong corporate citizenship | Employee engagement in community investment initiatives | Give back to communities and stakeholders |
| | | | Due diligence and ongoing monitoring ensures targeted investment outcomes |

Letter to our Stakeholders

I am pleased to share with you our first Responsibility Report. This report furthers our commitment to transparency and reflects the responsibility we have to our stakeholders throughout all of our activities.

At PrairieSky, we are committed to operating our business in a responsible manner while creating value. This means managing our business for the long term while continually improving our economic, social and environmental performance. As an accountability tool, this report summarizes our successes as well as areas for improvement.

Our relationships with a variety of stakeholders are deeply important to us and are based on mutual respect. We take care to select operators that share our core values. As well, we are active participants in the communities where we work and live.

Our role as a royalty-only company in the oil and gas industry affords us a unique position when it comes to environmental impacts. We do not have any direct oil and gas operations. These operations are the responsibility of the operators with whom we have entered into leases and contracts. As a result, we have a very limited direct impact on the environment. Nevertheless, we are committed to fostering the safe and responsible development of oil and gas and to reducing our environmental footprint.

We value the continued support of our shareholders and business partners as we work to create long-term value. On the business side, our primary goal is to optimize our strong asset base. Because of the long duration of our assets, successful execution of our strategy is only possible if the lands are developed responsibly and their integrity preserved for generations to come.

Operating as a responsible and financially successful company depends on our employees' commitment. I am proud to be part of such a group of engaged and dedicated individuals. Accountability, respect and integrity drive our everyday decisions. I hope you can see these values reflected throughout this report, but more importantly, demonstrated in how we do business.



Andrew Phillips
President & Chief Executive Officer

About this Report

This report focuses on key governance, environmental and social topics that are relevant to our company and to our stakeholders.

- The terms PrairieSky, PSK, we, our, us, the Company, and the corporation, refer to PrairieSky Royalty Ltd.
- Unless otherwise noted, this report covers PrairieSky's quantitative performance for the calendar year ended December 31, 2017. When relevant and available, historical data is provided for 2015 and 2016.
- Financial data is in Canadian dollars; environmental data is in metric units; and production data is in "boe" or barrels of oil equivalent. For further information regarding production or reserves, including defined or industry terms, please refer to our Annual Information Form for the year ended December 31, 2017 which is available on our website www.prairiesky.com.
- Unless noted, data does not cover contract service providers or temporary employees.
- This report does not include quantitative performance for third parties such as lessees or operators, but it does include relevant qualitative commentaries regarding third parties.

- Senior management and relevant staff have reviewed all information and believe it is an accurate representation of our performance. Internal and/or external assurance activities cover financial data for which the source in PrairieSky's annual Management Discussion and Analysis and PrairieSky's Annual Consolidated Financial Statements. Third-party assurance of this report was not conducted.
- We used the Global Reporting Initiative ("GRI") Standards and principles to guide the development of this report. The report contains some disclosures suggested by the GRI but does not yet fulfill all the requirements to be fully 'in accordance'. The GRI index starting on page 25 indicates where specific disclosures are addressed.

This first report is an important step in enhancing our transparency and ongoing commitment to corporate responsibility. We plan to use this report as a tool for **continual improvement** and to ensure that our disclosure aligns with the priorities of our stakeholders.

Report Content

To determine the topics to cover in this report, we developed a list of corporate responsibility topics extracted from the GRI Standards, industry guidance, peer reports and common PrairieSky investor questions.

We prioritized the topics based on external interest and relevance to our business. We considered insights from our interactions with investors, conversations with employees and management review, as well as peer reports.

We identified our key stakeholders for this report as our shareholders, employees, and our communities. Since this is our first corporate responsibility report, we encourage stakeholders to provide feedback to help us in identifying topics that are most relevant to them.

We identified topics **impacting our key stakeholders** and the environment in which we live and work. These topics were further narrowed down to the following priorities which are **discussed in this report**:

|  |  |  |  |
|---|---|--|---|
| Responsibility to Shareholders | Responsibility to the Environment | Responsibility to Employees | Responsibility to Communities and Society |
| Governance | Resource Use | Workplace Practices | Impact on the Economy |
| Ethics | Industry Environmental Issues | Gender Diversity | Financial Transparency |
| Relationships with Operators | | Health and Safety | Relationships with Indigenous Peoples |
| Risk Management | | | Community Involvement |

We also considered which corporate responsibility topics are discussed in other PrairieSky corporate reports, such as the annual Management Discussion and Analysis and Annual Information Form,

each of which are available at www.prairiesky.com. Discussion in this report focuses on topics not addressed elsewhere in our disclosure documents.

Our approach to Corporate Responsibility

PrairieSky is committed to operating in an economically, socially, and environmentally sustainable manner while creating value for our shareholders. Corporate responsibility is integral to our corporate strategy and is not segregated in a separate mandate or mission statement. We aim to deliver on our business strategy while ensuring our business is conducted in a sustainable and responsible manner.

At **PrairieSky**, we believe we have a responsibility to:

1. Shareholders:

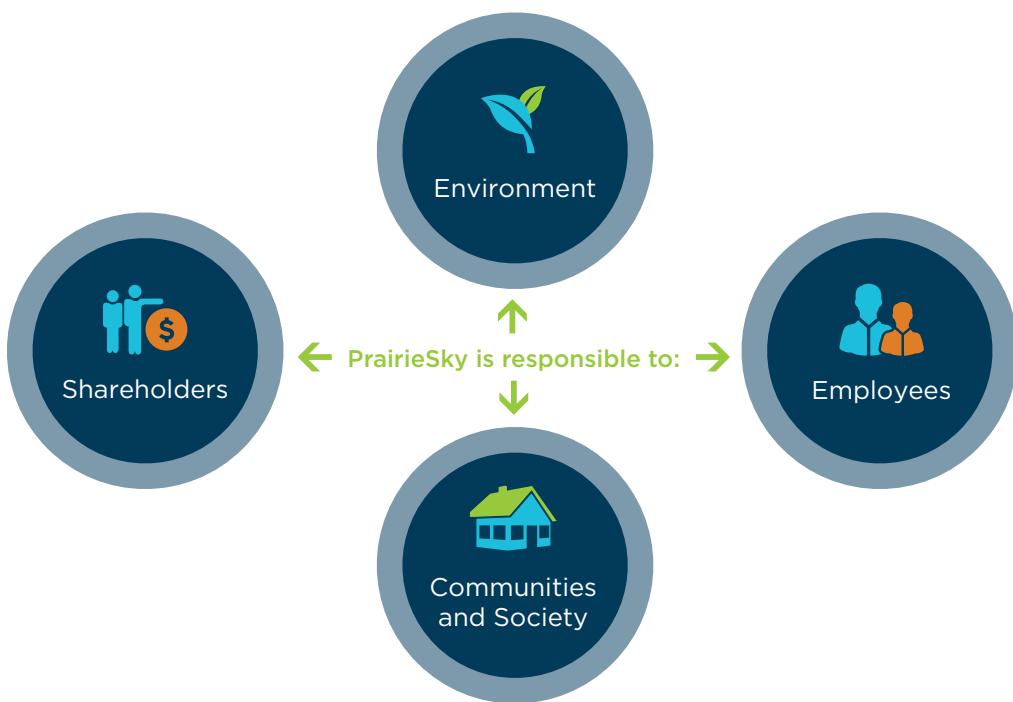
a. To act ethically and manage our business efficiently and with a goal of long-term value creation.

b. To appropriately manage risks throughout the entire life of our assets by carefully selecting operators on our lands, and ensuring adherence to contractual provisions and good industry practices.

2. The Environment: To reduce our direct resource use, and to actively manage our extensive land holdings.

3. Employees: To provide a safe, inclusive and respectful workplace that fosters equal opportunities for employees based on merit and without discrimination.

4. Communities and Society: To invest and build partnerships in the communities where we live and work.



Looking Forward

Corporate responsibility is not static. We plan to continually review and enhance our corporate responsibility performance and programs. In 2018, we plan to undertake the following initiatives:

Future Initiatives



- **Advancing** our community investment processes and policies, including recently formalizing a committee to encourage and receive employee and stakeholder proposals for community investment and charitable giving, and to monitoring the ongoing social impact and success of investments against existing and developing corporate objectives.



- **Modernizing** our workplace policies and practices, and holding educational seminars regarding advances in workplace laws, including recent amendments to occupational health and safety legislation in our primary jurisdiction.



- **Implementing** formalized education and training programs for succession planning candidates.

Responsibility to Shareholders

PrairieSky is responsible to our shareholders for creating financial value. We do so by conducting our business in a responsible manner, actively managing risk, and upholding the highest standards of governance and ethics. We regularly assess our business decisions against our strategy with an overall goal of delivering returns to shareholders through capital appreciation, and distributing free cash flow through dividends and share buybacks.

Governance

Our board of directors and management are committed to a high standard of corporate governance. Corporate governance is critical to our corporate culture and strategy and ensuring accountability to, and alignment with, our shareholders. PrairieSky has adopted mandates, position descriptions and principles that are intended to meet or exceed the governance standards set out under Canadian securities laws and by shareholder advisory groups.

A key priority for PrairieSky is having a Board comprising directors who are well informed, diverse in background, experienced, and independent from management. Based on applicable laws and governance best practices, four out of five Board members, including the Chair of the Board,

are considered independent. Our only non-independent Board member is our President and CEO. Our directors hold diverse backgrounds with a variety of expertise as shown in the skills matrix provided in our Information Circular and Proxy Statement available at www.prairiesky.com.

Our Board has three standing committees: the Audit Committee, the Governance and Compensation Committee and the Reserves Committee. The Board, not a specific committee, has oversight responsibility for material risks, including environmental and social risks. Each Committee is comprised entirely of independent directors.

Our executive and Board compensation practices are outlined in our Information Circular and Proxy Statement. We provide shareholders with a “Say on Pay” advisory vote at our annual general meeting (AGM). This non-binding vote on executive compensation provides shareholders with the opportunity to vote for or against our executive compensation approach. **At the 2017 AGM, 98 per cent of votes were cast in favour of the “Say on Pay” resolution.**

PrairieSky currently has one female Board director (25 percent of the independent directors), and two female executive officers (50 percent of the executive officers). The Board has not adopted a written policy relating to the identification and nomination of female directors nor does it have formal targets regarding the number of women on the Board. The Board believes that director nominations should be made based on the needs of the Board at the time and the skills, knowledge, experience and character of individual candidates, without reference to their age, gender, race, ethnicity or religion. See “Responsibility to Employees — Gender Diversity”.

Ethics

Honesty and integrity are fundamental values to our business. The Board has adopted a written Business Code of Conduct (the Code) that guides the culture of ethical business conduct required of all directors, management, employees and consultants. We have zero tolerance for fraud, corruption, self-dealing, or misuse of confidential information and company property. Our Code does not apply to lessees but it does apply to third-party service providers, such as information technology providers, consultants or other professional service firms. Our Code is available at www.prairiesky.com. Annually, every employee and internal service provider must read and certify compliance with the Code.

In addition to the Code, an anonymous whistleblower hotline is available to employees or third parties to report any questionable practices, grievances or complaints, directly to the Chair of the Board and the Chair of the Audit Committee. The Investigations Practice Policy (whistleblower), found at www.prairiesky.com provides a consistent and appropriate procedure by which all incidents can be received, investigated and brought to an appropriate resolution without fear of retribution.



The Board believes that providing a standard procedure for employees and third parties to raise concerns, and treating all complaints with a high degree of seriousness fosters a culture of ethical conduct.

In 2017, we did not receive any complaints or reports through the anonymous whistleblower line or under the investigations policy.

Relationships with Operators

Developing and maintaining long-term relationships with industry partners based on trust and mutual benefit are crucial to PrairieSky's ongoing success.

OPERATOR SELECTION PROCESS

Third parties conduct all of the oil and gas exploration and development activities associated with our royalty revenues, but we have the right to select the companies with whom we enter into lease agreements. We have a responsibility to our shareholders to make sure our assets are financially productive and are developed in a sustainable and responsible manner. To fulfill that responsibility, we take great care in selecting our operators. Our selection process has three important components:

- **Financial capacity evaluation:** We review a potential operator's financial standing based on their existing operations, and evaluate their capacity to undertake additional investment and to pay future royalties. We review several factors, including the potential operator's capitalization, liquidity and financial track record.
- **Regulatory due diligence:** We review public searches, and industry compliance and enforcement records with oil and gas regulators. We take note of any operational enforcement activities and non-compliance such as failure to remediate previously leased land.
- **Reputation of the potential operator:** We consider our operators as partners in developing our resources so we want to understand the reputational implications and risks related to working with certain companies. We conduct background checks, review current news, attend industry association events and conferences, and monitor potential operators.

Before any new lease can be finalized, our senior executive team conducts a final review of our assessment in conjunction with our Chief Operating Officer.

MANAGING EXISTING RELATIONSHIPS WITH OPERATORS

After the selection process and when a lease is in place, we continue to monitor operator behaviour. In 2017, we collected revenue from 340 operators. We manage operator relationships through:

1. **Contract terms:** Our contracts include requirements for operators to develop the land in a diligent and careful manner using Canadian oil and gas industry best practices, and in compliance with all applicable regulations.
2. **Weekly operations meetings:** We review potential issues related to compliance, reputation and payments at weekly operations meetings. During this process, we flag and proactively resolve issues to our satisfaction before entering into new business relationships with existing operators. These meetings convene leaders and representatives from different internal groups to ensure efficient coordination of internal resources and an understanding of issues and their implications.

3. **Lease and Royalty Compliance Department:** Our compliance department focuses on monitoring adherence to lease terms, contractual obligations and payment of royalties. This team takes a proactive approach to compliance and engages in early resolution discussions with operators. In 2017, the royalty compliance department sent more than 1,000 notices to lessees and recovered \$10.6 million in compliance revenue. Since PrairieSky's initial public offering on May 29, 2014, we have collected over \$40 million in compliance revenues. In addition, we served over 2,100 lease compliance notices and saw over 200,000 acres returned to inventory. Lands returned to inventory can be re-leased.

4. **Site visits:** Our senior management team and land negotiators responsible for each area conduct three or more operational visits per year. In 2016 and 2017, they visited 17 and 15 individual lease sites, respectively. These visits allow our team to observe how operations are conducted, how sites are kept, how many third-party employees are on site and overall site conditions. We believe site visits are valuable for our team and for operator relationships.

5. **Audits:** We have the right to audit the operators of our leases and how they conduct their business. Several factors contribute to the selection of companies to audit: slow payment of royalties; financial distress; suspected or persistent unresolved miscalculation of royalties; environmental or operational concerns; breaches of contract; or new operators on a site previously leased by another party. In 2016 and 2017, issues were resolved within the lease and royalty compliance department processes discussed above other than as described in "Land Stewardship".

Risk Management

PrairieSky is subject to risks that directly affect our business and operations, as well as indirect risks that affect third parties that lease our lands and the oil and gas industry generally.



Through our **internal process**, we continually **identify, assess, monitor and manage risks associated with our business**.

Three areas of risk that represent common **shareholder inquiries** are as follows:

Operator receivership: The oil and gas industry is constantly changing and involves companies of all sizes. Phases of low commodity prices can result in increases in companies going into bankruptcy or receivership. Over the past two years, several of PrairieSky's operators were involved in receivership or restructuring proceedings, during which PrairieSky appeared in court proceedings to ensure the integrity of our assets and our interests were protected.

Acquisitions: PrairieSky holds the largest independently owned royalty land position in Canada. PrairieSky considers acquisitions if they fit our strategy or complement our existing asset base.

Conflict minerals: The term conflict minerals is common in our peers' corporate responsibility disclosures, since many royalty or streaming companies receive revenues from mining operations in developing nations or conflict zones. PrairieSky currently receives royalties exclusively from oil and gas development in Canada and is therefore not directly or indirectly involved with conflict minerals.

Conflict minerals, according to the Securities Exchange Commission, refers to: tin, tantalum, tungsten and gold that may have originated in the Democratic Republic of the Congo and the adjoining countries of Angola, Burundi, the Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda and Zambia.

Responsibility to the Environment

Environmental stewardship is one of today's most significant issues. We believe that every company, regardless of size or activity, has a responsibility to monitor and reduce its impact on the environment. We focus on reducing our own resource use when possible, and encouraging our lessees to act in an environmentally responsible way.

Resource Use

PrairieSky has no oil and gas field operations, and we are not responsible for environmental liabilities associated with third-party operations. PrairieSky's direct environmental impact is relatively minor and primarily related to our corporate office.

Our company is headquartered in the First Canadian Centre building in downtown Calgary, Alberta, Canada. Our team of 65 employees collaborates in this building and creates a direct environmental impact through: carbon emissions related to energy consumption, employee commuting and travel; water use; and waste generation. Although PrairieSky's direct environmental footprint is small, we remain committed to reducing our resource consumption in the building we occupy.

We moved into First Canadian Centre in 2015. First Canadian Centre, as part of GWL Realty Advisors' office portfolio, is committed to environmental leadership and has achieved BOMA Best Certified Platinum status for building environmental standards. BOMA Best is Canada's largest environmental assessment and building certification program, with more than 5,000 certified buildings. In 2014, GWL launched their Sustainability Benchmarking and Conservation Program, setting targets for reducing energy averages and water intensity as well as waste

diversion that have placed their office portfolio at better than national averages.

ENERGY USE AND CARBON EMISSIONS

PrairieSky operates in one office location, and has no field operations. As such, we have few sources of direct greenhouse gas emissions. The only direct source is the natural gas consumed in the heating system of our corporate office. Indirect sources of greenhouse gas emissions include employee commuting and business-related air or vehicle travel, and purchased electricity for our office operations.

To date, we have not conducted a greenhouse gas inventory and, as building tenants, rely on energy and other resource data provided by the building owner and property management. To begin understanding the magnitude of our impact we are disclosing an initial estimate of carbon emissions. This estimate is a simple pro-rated amount based on the total building consumption and relies on the assumption that all tenants have similar average consumption. Although this methodology does not allow us to track improvements based on employee behavioural changes, we will continue to promote efforts to reduce consumption.



PrairieSky provides **in-office shower facilities** and the building offers a **secure bike storage facility** to promote alternative transportation to work, and exercise such as **running, walking or cycling**. Currently, **30 percent** of PrairieSky employees walk, car-share or bike to work and approximately **50 percent** take public transit.

PrairieSky limits employee business-related travel, which helps avoid energy consumption and related greenhouse gases. It also helps keep our operating expenses low and focuses executive resources in the office where they have the highest impact.

WASTE GENERATION AND WATER CONSUMPTION

Some of our other environmental impacts are waste generation and water use.

Employees participate in the building's **extensive recycling program**, which includes **composting in all kitchens, paper recycling** in all offices and electronics recycling. Additionally, PrairieSky has an internal program to **reduce the amount of paper** it uses on an annual basis, which is part of a larger effort to move to a **paperless system** over time.

Estimates of 2017 Building Resource Use for PrairieSky (except as noted):

 **2,453_{GJ}**
natural gas used

 **1,871_{GJ}**
of electricity used

 **541 tonnes**
of CO₂ emissions in 2016
(scope 1 and 2 emissions)
(2017 available spring 2018)

 **64%**
waste diversion rate
in the building

 **27,945 liters**

of water used per PrairieSky employee, per year

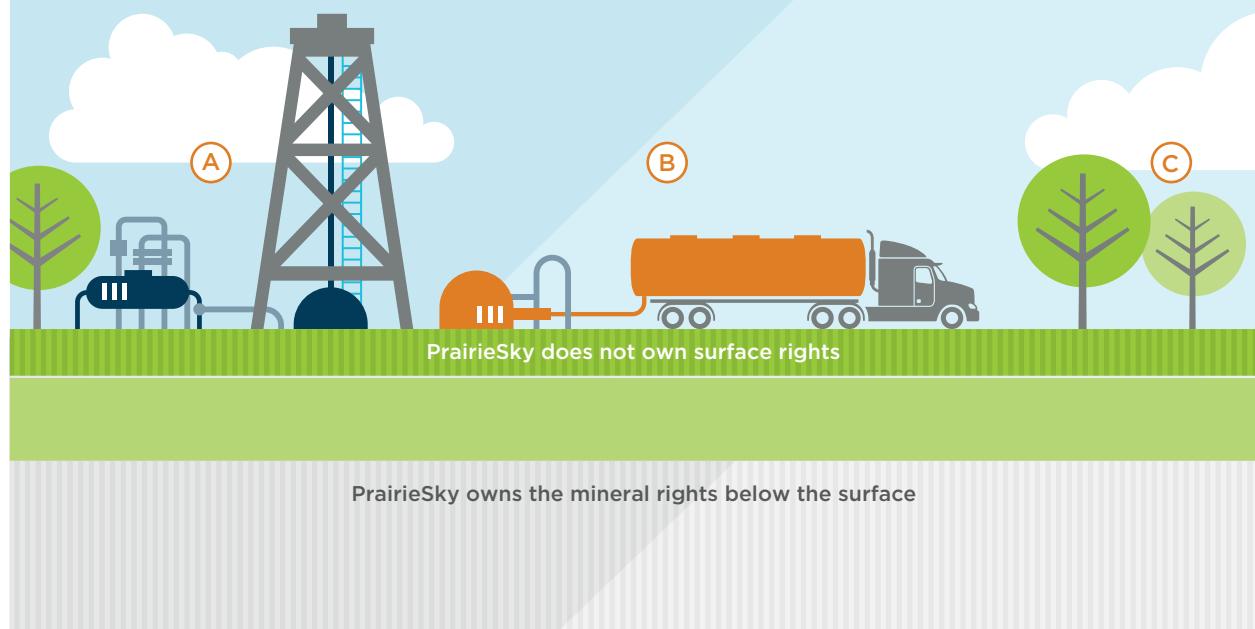
LAND STEWARDSHIP

Although we do not have direct legal or financial liability related to the environmental protection of lands where we own the mineral rights, we feel we have a role in overseeing its development. A majority of our lands are mineral rights held in perpetuity, so any long-term damages to the land affect our ability to generate future value.

Our **royalty ownership business model** differs significantly from a working interest or lease position in the oil and gas industry. A working interest owner is responsible for its share of **operating costs, capital costs, environmental liabilities** and **reclamation obligations**, usually in proportion to its ownership percentage. In contrast, PrairieSky enjoys the **commercial benefit** of a portion of the upside potential of a property, with **no obligation for operating costs, capital costs, environmental liabilities** or **reclamation obligations**. Independent oil and gas producers operate the properties over which we hold mineral title or interests.

Environmental rights and responsibilities

Lessees and operators work to develop the lands and are responsible for all costs to:
A develop, B operate and C reclaim and abandon



Although PrairieSky does not directly control operator activities, we are committed to advancing responsible development of oil and natural gas in Canada. Our focus on land stewardship is evident through:

- **Contract Obligations:** PrairieSky includes several provisions in our royalty arrangements to ensure operators adhere to all applicable environmental laws as well as good industry practices. These requirements are supported by an explicit assumption of all environmental liability by the lessee, as well as an indemnity clause and a requirement to hold a suite of insurance coverage in accordance with best industry practices.
- **Field Inspections:** PrairieSky has the right to physically inspect any facilities and operations on our royalty lands. PrairieSky has the ability to terminate a lease should the lessee fail to adhere to contractual provisions, including non-compliance with environmental laws. If applicable, non-compliance could lead to reporting to the government regulator. In 2016 and 2017, management visited 17 and 15 individual lease sites, respectively. Based on observations during these visits, no report to government regulators was required.
- **Audits:** PrairieSky periodically audits third-party operators to ensure regulatory compliance, including regulations relating to good oilfield practices and the environment.

In 2017, PrairieSky terminated leases issued to a third party that failed to adhere to good oilfield practices and applicable regulations and was not, in PrairieSky's view, operating in a safe and environmentally responsible manner. As a result, the wells were shut in and the operator was referred to the Alberta Energy Regulator. PrairieSky is working with the provincial regulator, the local municipality, other stakeholders and reputable oil and gas companies with a credible history to have the wells transferred to a new operator and put back on production.

PrairieSky actively participates in the Canadian Association of Petroleum Landmen, and the Canadian Association of Petroleum Land Administration to inform industry of issues that are important to PrairieSky and to remain involved with industry matters. PrairieSky also supports operators on our lands through membership in the Explorers and Producers Association of Canada.

Industry Environmental Issues

Although our environmental impact is not direct, we often receive questions from investors and other stakeholders on various environmental topics relevant to the oil and gas industry. We clarify our position on these topics below.

LAND ACCESS AND LANDOWNERS

PrairieSky does not own any surface land rights. PrairieSky owns only the minerals, including petroleum and natural gas, below the surface of the land. Lessees must secure surface access to the land, legally and physically, and manage their relationship with surface landowners. We understand the importance of positive relationships with landowners and minimizing land disturbance during land access; however, we do not have control over these activities.

FRACKING AND OTHER TECHNOLOGIES

The oil and gas industry is subject to extensive environmental regulations governing the exploration and development of subsurface resources, and continues to innovate new technologies to meet the regulations safely and efficiently. In oil and gas development, several techniques are used, such as horizontal drilling and completions, waterflooding, fracking, and enhanced oil recovery schemes including the application of chemicals. All parties involved in oil and gas development benefit from these technologies, including PrairieSky, since they increase the potential for more efficient recovery of hydrocarbons.

The related impacts of water use, chemical use and induced seismicity are of concern to society. We do not have operational control over the properties and cannot influence the decisions on which techniques are used. We continue to monitor new research and discoveries that increase the potential for hydrocarbon recovery while minimizing related impacts.

CARBON LEVY

The Alberta government's Climate Leadership Act came into effect on January 1, 2017. The Act establishes an economy-wide carbon levy on greenhouse gas emissions resulting from the combustion of fuels. The levy applies to "direct emitters" and therefore does not result in a levy for PrairieSky. Fuel produced and consumed on-site by oil and gas producers is exempt from the levy until 2023. Because this levy affects the industry and project feasibility, we are watching this issue closely.

RECLAMATION AND END-OF-LIFE LIABILITIES

PrairieSky does not have liabilities related to the activities required at the end-of-life of the wellbores, pipelines and associated assets. Operators own these assets. Once a lease is terminated, the operator is responsible for well abandonment and land reclamation.

PrairieSky **notifies the regulator** that the operator no longer has a lease agreement. According to current regulations, **operators are required to abandon within 120 days**. The liability belongs to the operators and the regulator is in charge of monitoring the **fulfillment of that obligation**.

ORPHAN WELLS

In the oil and gas industry, an orphan is defined as a well or any related pipeline or facility that is deemed as not having any legally responsible and/or financially able party to deal with its abandonment and reclamation. In times of low commodity prices, the number of orphan wells typically increases. To deal with this issue, oil and gas producers in Alberta pay a levy to the Alberta Orphan Oil and Gas Abandonment and Reclamation Association based on their number of wells and estimated future liabilities. PrairieSky is not a producer or operator and therefore does not contribute to the fund.

SEISMIC DATA

Through direct ownership or licensing, PrairieSky has access to seismic data encompassing approximately 43,000 square kilometers (2-D), and approximately 13,000 square kilometers (3-D). We manage this data and provide access to it as part of leasing transactions. This data gives PrairieSky a competitive advantage, since we know the potential of our assets and makes leasing from us more attractive to potential operators.

If **further seismic studies** or reprocessing is required, the operator is **responsible for financing and arranging the study**, as well as addressing any **impacts to landowners or communities**.

Responsibility to Employees

Our core values of honesty, integrity and respect are the foundation of how we conduct business. PrairieSky is committed to providing employees with challenging work and fair compensation, a safe work environment, and opportunities for development and career growth.

Workplace Practices

PrairieSky aims to attract and retain talented people who will contribute to our success. Once on board, we look to engage our talented employees and inspire them to stay. Our efforts in employee attraction and retention include:

SHARE OWNERSHIP

- PrairieSky promotes a culture of ownership. We provide a stock savings plan, in which currently every permanent employee takes part. As part of the plan, employees contribute up to 12 percent of their salary to purchase PrairieSky common shares in the open market, which is matched on a dollar for dollar basis by PrairieSky and subject to an escrow for two years. We believe all our employees should be owners in PrairieSky's business, and alignment with shareholders is a core part of PrairieSky's culture.

CREATING VALUE

- PrairieSky has a lean, entrepreneurial culture where each employee can make a difference. We clearly communicate our corporate strategy and objectives and how each employee can contribute to them.

FLEXIBLE WORK SCHEDULE

- We provide a flexible schedule in which employees need to be present daily at our offices for core hours. Flexible hours contribute to work-life balance and job satisfaction.

COMPENSATION & BENEFITS

- We provide competitive compensation and benefits that reward performance and share in PrairieSky's success.
- We support our employees and advanced education by offering post-secondary scholarships of up to \$2,500 per year to eligible dependant children of employees.

TRAINING & DEVELOPMENT

- We have a formal annual performance evaluation as we recognize that performance management is an essential element in maintaining an organizational culture that promotes high quality performance, individual responsibility and accountability. Performance management helps to link Company objectives with employee goals through an individualized performance plan that recognizes achievements and identifies potential gaps in performance, both individually and within a team. In 2017, all employees participated in performance evaluations.
- We support opportunities for employee development through education and training. These opportunities range from post-secondary education to internal lunch and learn sessions and industry group presentations.
- We identify high-potential employees for leadership development and succession planning. These employees receive formal and informal training focused primarily on skill development and leadership.

- We operate an active summer student program whereby students from various universities and fields of study are hired across the Company. Providing meaningful work is beneficial to the students and PrairieSky, and ultimately allows us to recruit top-end talent that we believe can contribute to our business in the future. During the 2016 and 2017 summers, we hired nine and six students, respectively.

As a result of our **workplace practices**, we maintain a **low voluntary turnover rate** (4.4 percent in 2016 and 7.6 percent in 2017).

Gender Diversity

Diversity and inclusion are important to PrairieSky, and we are committed to a level playing field where every one of our talented employees can succeed. Our Business Code of Conduct reinforces that any incident of harassment or discrimination is unacceptable. We maintain an inclusive work environment that is focused on providing advancement opportunities to persons of all genders, ethnicities and orientations, based on merit.

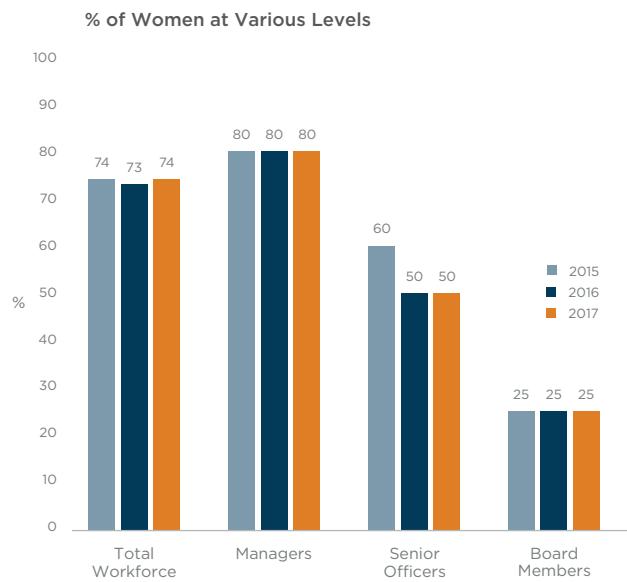
Our gender statistics, and their stability through the years, are encouraging but we cannot become complacent. We need to continually foster inclusion. Our 50 percent female executive team is a visible encouragement for men and women at PrairieSky. As a testament to our culture, all employees who took maternity or parental leave in the past three years have returned to the Company and continued to work for PrairieSky afterwards.

Health and Safety

Because we do not engage directly in oil and gas operations, health and safety risks typically associated with the industry are not direct risks for PrairieSky. Our Business Code of Conduct addresses health and safety topics. We encourage our

employees to maintain a safe and healthy workplace by following established rules and practices, and by reporting accidents, injuries, unsafe equipment, conditions or practices to managers, Executive Officers or directly to our Board through our anonymous whistleblower hotline.

As part of our objective to improve the overall health of our employees, we promote an active lifestyle and host several active events throughout the year. As well, we offer every employee a health spending allowance for additional expenses that may not be covered under their benefits package. In March 2017, PrairieSky sponsored our third annual Mountain Fun Day with approximately half of the Company participating in a full day of skiing, snowboarding and snowshoeing in Banff, Alberta.



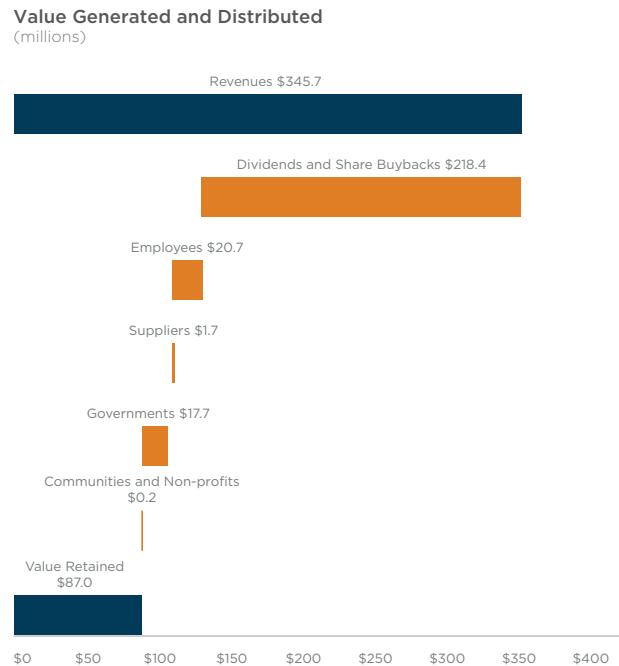
We outperform the financial industry benchmark www.catalyst.org for women in the workforce and in senior management positions. Although we are not in the financial services industry, we believe it is important to look across industries in regards to gender diversity, and specifically to industries that are leaders in advancing women and championing gender diversity. For this benchmark the financial industry includes banks, financial transaction and intermediation services, and investment trusts.

Responsibility to Communities and Society

PrairieSky believes in giving back to the communities where we work and live. Through our business interactions we aim to respect all stakeholders involved, create a positive impact in the larger economy and demonstrate transparency about our payments to governments.

Impact on the economy

As Canada's leading oil and gas royalty enterprise, PrairieSky has an impact on the economy far greater than our community investments. We aim to create long-term value for shareholders and positively affect other stakeholders such as governments, communities, employees and industry partners.



In 2017, PrairieSky distributed value to shareholders through dividends and common share repurchases. Our revenues also benefited our employees as salaries and benefits, suppliers as payments, provincial and federal governments as taxes, and the communities and non-profits as contributions. Value retained is simply value generated minus value distributed. This is not a financial reporting indicator and should not be confused with retained earnings.

Financial transparency

PrairieSky supports global efforts to increase transparency and accountability in the mining and oil and gas industries. The Extractive Sector Transparency Measures Act (ESTMA) was enacted in 2015 as Canada's commitment to global efforts to deter corruption in the extractive sector. PrairieSky published its first ESTMA report on May 30, 2017. The report can be found here: www.prairiesky.com

Relationships with Indigenous Peoples

We recognize and respect the constitutionally protected rights of Indigenous peoples in Canada. PrairieSky does not directly own any mineral rights that overlap with contested Indigenous territories. However, we have gross overriding royalties on two thermal oil properties that are in or near traditional territories where Indigenous peoples are partnering with industry for the development of natural resources. Operators of these two properties instituted the following agreements in partnership with Indigenous groups:

- **Pengrowth Energy Corporation** has a joint venture with Frog Lake Energy Resources Corp. (owned by Frog Lake First Nations) in which Frog Lake Energy Resources Corp. purchased and leased back to Pengrowth the co-generation facilities at Pengrowth's Lindbergh thermal oil project in Cold Lake, Alberta. The leaseback is under a 20-year agreement.
- **BlackPearl Resources Inc.** is the operator of a field located on the Onion Lake Cree Nation reserve, along the Saskatchewan/Alberta border near Lloydminster. BlackPearl has a partnership with Onion Lake Energy Limited Partnership, the administrative side of the oil and gas sector for the Cree Nation, to develop its thermal oil project. Both parties are committed to ensuring that the partnership is sustainable for future generations and for the environment. Environmental factors (including air, water, wildlife and vegetation) are closely monitored. BlackPearl has pledged to protect ground and surface waters from contamination, use no more land than needed, and work with the community to protect historic sites.

Community involvement

Our community investment program has three goals: promoting healthy communities, giving back to our communities and engaging our employees in the community. We encourage employees to give back to our communities and we direct our efforts to areas of interest to our employees. Employees are active in supporting causes that make a significant and positive impact in communities where we work and live.

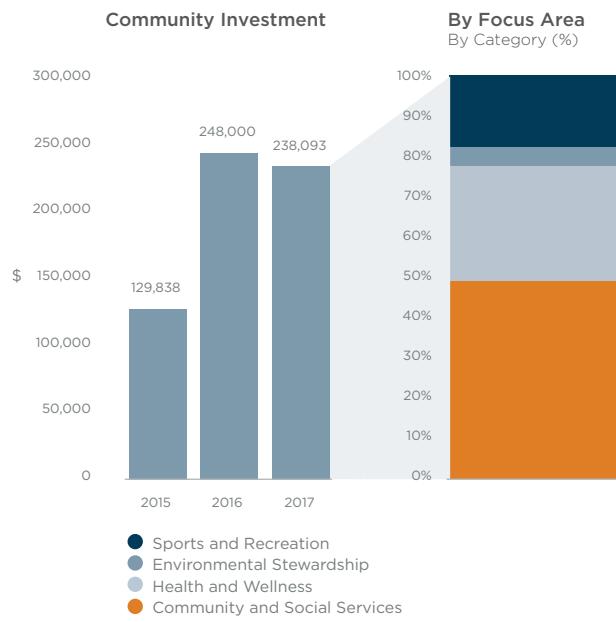
PrairieSky believes in multi-year commitments with organizations since they help non-profits budget their services and programs more effectively. Our key community partners are:

Alberta Children's Hospital Foundation: The Alberta Children's Hospital Foundation inspires our community to invest in excellence in child health, research and family-centred care at the Alberta Children's Hospital in Calgary, Alberta, including funding for specialized life-saving equipment and advanced pediatric research and education. Beginning in 2018, PrairieSky has committed to a \$500,000 gift over five years to be used for child and youth mental health initiatives.

Ski for Heart: PrairieSky is a lead sponsor for this event in support of the Heart and Stroke Foundation. The event is a family-friendly weekend in the Rockies for Albertans who share a passion for the outdoors, and a commitment to support life-saving heart and stroke research. Funds raised from the event are used to sponsor a research project for one year. In 2017, the event raised \$122,777, surpassing the goal of \$110,000).

Lionheart Foundation: The Lionheart Foundation acts as a primary resource for adolescents with anxiety issues. Donations to the foundation provide subsidized counselling for individuals and families who cannot afford to pay for the full cost of treatment, and training of therapists, doctors, nurses and other specialists to increase capacity in our community. PrairieSky has sponsored the last two Girl Power Hours that build awareness of the issues.

YMCA: In 2016, we initiated the PrairieSky Royalty Physical Literacy Program in partnership with the YMCA to involve children in healthy, positive activities during after-school hours. This program enables YMCA staff to develop programs that help youth build the confidence to engage in activities to become healthy, active adults. Children 8 - 12 years old are able to develop a sense of belonging in school and the community, with no fee to participate. With our support, the YMCA was able to implement a physical literacy strategy, curriculum and tools for all YMCA day camps, resulting in over 8,300 camp experiences in 2017 YMCA Summer Day camps and training of 180 staff. We have a 3-year partnership with the YMCA for a total of \$150,000.



PrairieSky strongly believes in giving back to its community and supporting causes that have a direct and significant impact on where we live, work and play.

The Alex Community Food Centre: The Alex Community Food Center (CFC) offers low-income community members access to high-quality food, food skills, and education and engagement programs. PrairieSky has partnered with the Alex CFC to support The Cookin' Ahead Program, which allows participants to learn food skills, cook collectively, meet new friends and neighbours, and take home meals. Under the program, the Alex saw participants 267 times and prepared 826 meals. We have a 3-year partnership with the Alex for a total of \$75,000.

PrairieSky receives numerous requests for support from a variety of organizations. After reviewing requests, we select programs that best fit into our overall commitment to corporate responsibility and our strategic priorities.

Volunteer Opportunities

In addition to our corporate donations, our commitment in the community is made possible by the generosity of our employees, who volunteer their time and energy to many causes. PrairieSky offers volunteer opportunities but it is our employees who put in the hard work. Some of the activities our employees participated in during 2017 included:

- In January, 17 of our employees served PrairieSky's sponsored lunch at Calgary's Drop In and Rehab Center.
- In May, ten of our employees served lunch and volunteered for a half-day at the Alex Community Food Centre.
- In June and September, we hosted tree-planting events. Eighteen employees attended an event in partnership with the City of Calgary. Fifteen employees attended an event in partnership with the Ann & Sandy Cross Conservation Area. PrairieSky provided a \$10,000 sponsorship to the Cross Conservation Area in support of carbon offsetting efforts through reforestation and habitat restoration. Our employees helped to plant a total of 660 trees.
- In November, 92 percent of our employees participated in the week-long United Way campaign, which includes fundraising, volunteer outings and events to raise awareness of social issues in Calgary. Our employees donated more than \$40,000.

Community Investment Highlights

 **\$238,000**
in sponsorship and donations

 **660**
trees planted

 **92%**
of employees
participated in United Way campaign

Performance Summary Table

| | Units | 2015 | 2016 | 2017 |
|------------------------------------|---------------|--------|--------|---------|
| Company Context | | | | |
| Royalty production | boe/d | 17,225 | 23,308 | 25,259 |
| Total acres | million acres | 14.7 | 14.5 | 15.3 |
| Acres — fee title lands | million acres | 7.7 | 7.8 | 7.8 |
| Acres — gross overriding royalties | million acres | 7.0 | 6.7 | 7.5 |
| Seismic data (3-D) | square km | 12,000 | 13,000 | 13,000 |
| Seismic data (2-D) | km | 44,000 | 43,000 | 45,000 |
| Operators/lessees | count | 360 | 340 | 340 |
| Revenues | million \$ | 215.0 | 224.2 | 345.7 |
| Relationship with Operators | | | | |
| Sites visited by senior management | count | 15 | 17 | 15 |
| Audits of lessees | count | 1,081 | 1,246 | 1,042 |
| Inspections of lessees conducted | count | 1 | 1 | 1 |
| Notices issued to lessees | count | 1,177 | 1,959 | 2,124 |
| Acres "recycled" | acres | 40,000 | 51,200 | 213,120 |
| Employees | | | | |
| Total employees | count | 70 | 69 | 65 |
| Full-time | count | 66 | 66 | 62 |
| Part-time | count | 4 | 3 | 3 |
| % of women | | | | |
| Total workforce | percent | 74 | 73 | 74 |
| Managers | percent | 80 | 80 | 80 |
| Senior officers | percent | 60 | 50 | 50 |
| Independent Board members | percent | 25 | 25 | 25 |
| Retention | | | | |
| Turnover rate, total | percent | 17.1 | 16.2 | 13.6 |
| Turnover rate, voluntary | percent | 5.7 | 4.4 | 7.6 |

| | Units | 2015 | 2016 | 2017 |
|--|------------------------|------------|------------|-------------------------------|
| Facilities | | | | |
| Resource use, prorated to PrairieSky | | | | |
| Electricity use | gigajoules | 1,955 | 1,910 | 1,871 |
| Natural Gas use | gigajoules | 2,115 | 2,236 | 2,453 |
| GHG emissions ⁽¹⁾ | tonnes CO ₂ | 538 | 541 | see note below ⁽¹⁾ |
| Water use | cubic meters | 2,301 | 2,016 | 1,816 |
| Waste generated | tonnes | 11,748,258 | 11,345,103 | 12,209,631 |
| Waste diverted from landfill | percent | 63 | 65 | 64 |
| Water use, prorated per PSK employee | litres | 32,865 | 29,223 | 27,945 |
| Communities and Society | | | | |
| Community Investment | \$ | 129,838 | 248,000 | 238,093 |
| By Focus area | | | | |
| Community and Social Services | \$ | 73,324 | 120,349 | 117,019 |
| Education | \$ | — | 53,500 | — |
| Health and Wellness | \$ | 26,000 | 60,150 | 67,450 |
| Environmental Stewardship | \$ | — | — | 11,624 |
| Sport and Recreation | \$ | 30,514 | 14,000 | 42,000 |
| Economic Value Generated and Distributed | | | | |
| Revenues | millions \$ | 215.0 | 224.2 | 345.7 |
| Distributed as follows: | | | | |
| Dividends declared to shareholders and share buybacks | millions \$ | 176.1 | 196.5 | 218.4 |
| Employees (salaries, benefits and cash long-term incentives) | millions \$ | 14.9 | 15.9 | 20.7 |
| Suppliers (operating expenses, other G&A, other) | millions \$ | 3.6 | 2.0 | 1.7 |
| Governments (production and mineral taxes, cash taxes) | millions \$ | 1.2 | 5.7 | 17.7 |
| Communities & Non-Profits (charitable contributions) | millions \$ | 0.1 | 0.2 | 0.2 |
| Value Retained at PrairieSky ⁽²⁾ | millions \$ | 19.1 | 3.9 | 87.0 |

Notes:

1. 2017 GHG information for PrairieSky's office is not available until spring 2018.
2. Value retained is simply value generated minus value distributed. This is not a financial reporting indicator and should not be confused with retained earnings.

GRI Index

We used the Global Reporting Initiative (GRI) Sustainability Reporting Standards to help determine report content. The report contains Standard Disclosures from the Guidelines but has not fulfilled all the requirements to be ‘in accordance’. For more information on the GRI, please visit www.globalreporting.org.

| GRI Indicator | | |
|----------------------------|---|---|
| General Disclosures | | PAGE |
| 1102-1 | Company name | 1 |
| 102-2 | Primary brands, products and services | 1 |
| 102-3 | Headquarters | 12 |
| 102-4 | Locations | 12 |
| 102-5 | Legal form | See AIF |
| 102-6 | Markets served | 1 |
| 102-7 | Scale of the company | 1 |
| 102-8 | Employee numbers | 23 |
| 102-9 | Supply chain description | 2 |
| 102-10 | Changes to company or supply chain | n/a |
| 102-11 | Precautionary Principle or approach | 15* |
| 102-12 | External Initiatives | 20 (ESTMA) |
| 102-13 | Memberships | 15* |
| 102-14 | CEO message | 3 |
| 102-15 | Key impacts, risks and opportunities | 5 |
| 102-16 | Values | 17 |
| 102-18 | Governance structure | 8 |
| Governance | | |
| 102-17 | Understanding and reporting unethical behaviour | 9 |
| 102-20 | Executive-level responsibility sustainability | 8 |
| 102-22 | Composition of board | 8, See AIF |
| 102-23 | Chair of Board | 8, See AIF |
| 102-24 | Selecting Board members | 9 |
| 102-25 | Conflicts of interest | 8, See AIF |
| 102-30 | Board role in risk management for sustainability | 8 |
| 102-32 | Executives approve Responsibility Report | 4 |
| 102-35 | Pay policies for board and executives | 8, See Information Circular and Proxy Statement |
| 102-36 | Process for determining executive pay | 8, See Information Circular and Proxy Statement |
| 102-37 | Stakeholder involvement in executive pay approval | 8, See Information Circular and Proxy Statement |

| GRI Indicator | | |
|--|---|-------|
| Stakeholder engagement and reporting practices | | |
| 102-41 | Employees covered by collective bargaining agreements | n/a |
| 102-42 | Identifying stakeholders | 2 |
| 102-46 | Report content | 5 |
| 102-47 | Material topics | 5 |
| 102-48 | Restatement of information from previous reports | n/a |
| 102-49 | Changes in reporting | n/a |
| 102-50 | Reporting period | 3 |
| 102-51 | Most recent Responsibility Report | 3,4 |
| 102-52 | Reporting cycle | 4 |
| 102-53 | Contact person for report | 26 |
| 102-54 | Claims of reporting according to GRI | 4, 25 |
| 102-55 | GRI content index | 25 |

| Economic, Environmental and Social Performance | | |
|--|--|-------|
| 201-1 | Direct economic value generated | 20 |
| 302-1 | Energy consumption | 13 |
| 305-1 | Direct GHG emissions | 13 |
| 305-2 | Indirect energy GHG emissions | 13* |
| 306-2 | Waste and recycling | 13 |
| 308-1 | Operators environmental assessment: Management approach | 9 |
| 401-1 | New hires and employee turnover | 24* |
| 401-3 | Parental leave | 18 |
| 404-2 | Skill upgrading programs | 17* |
| 405-1 | Diversity of board and employees | 8, 18 |

* Partially meets the disclosure requirements of the referenced GRI standard.

Contact information

Office Address:

Suite 1700 350 7th Ave SW
Calgary AB
T2P 3N9

Mailing Address:

PO Box 780 Station M
Calgary AB
T2P 2J6

info@prairiesky.com

Phone & Fax:

P 587.293.4000
F 587.293.4001

Whistleblower Hotline:

P 1.800.661.6975
www.prairiesky.confidenceline.net



PRAIRIE SKY
ROYALTY LTD