MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021

HIGH MARGINS
ZERO CAPITAL

PRAIRIESKY ROYALTY LTD

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements as at and for the three and nine months ended September 30, 2021 and 2020 ("interim condensed consolidated financial statements") and the audited consolidated financial statements and related notes as at and for the years ended December 31, 2020 and 2019. This MD&A has been prepared as of October 25, 2021.

The unaudited interim condensed consolidated financial statements and comparative information have been prepared in Canadian dollars and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). PrairieSky receives royalty income on production; as such, the production volumes are equivalent on a gross and net basis.

Certain measures in this document do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by PrairieSky to provide potential investors with additional information regarding the Company's liquidity and its ability to generate funds to conduct its business. Non-GAAP measures include Operating Netback, Operating Netback per BOE, Operating Margin, Cash Administrative Expenses, Cash Administrative Expenses per BOE and Net Debt. Further information can be found in the Non-GAAP Measures section of this MD&A.

The following volumetric measures may be abbreviated throughout this MD&A: barrel ("bbl") per day ("bbls/d"), barrel of oil equivalent ("BOE") per day ("BOE/d"), thousand cubic feet ("Mcf"), and million cubic feet ("MMcf") per day ("MMcf/d"). BOE is an industry measurement to summarize the amount of energy equivalent found in a barrel of crude oil. See the discussion on energy conversions in the Advisory section of this MD&A for further explanation.

Readers should also read the Advisory section located at the end of this MD&A, which provides information on Forward-Looking Statements, crude oil, natural gas and natural gas liquids ("NGL") conversions, currency and references to PrairieSky.

Financial and Operational Results

(millions, except per share or as otherwise noted)	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
FINANCIAL				
Revenues	**$ 78.1**	$ 43.5	**$ 207.4**	$ 124.4
Funds from Operations	**66.2**	37.9	**171.6**	105.7
Per Share - basic and diluted(1)	**0.30**	0.16	**0.77**	0.46
Net Earnings	**33.7**	9.4	**79.6**	17.6
Per Share - basic and diluted(1)	**0.15**	0.04	**0.36**	0.08
Dividends declared(2)	**20.0**	13.4	**49.0**	72.7
Per Share	**0.09**	0.06	**0.22**	0.315
Acquisitions	**190.1**	-	**241.8**	6.7
Net Debt(3)	**187.7**	66.2	**187.7**	66.2
Common share repurchases	**8.0**	81.8	**21.2**	90.9
Shares outstanding				
Shares outstanding at period end	**221.7**	223.3	**221.7**	223.3
Weighted average - basic	**222.2**	229.8	**222.7**	231.7
Weighted average - diluted	**222.6**	230.2	**223.1**	232.2
OPERATIONAL				
Royalty Production Volumes				
Crude Oil (bbls/d)	**7,535**	6,572	**7,281**	7,061
NGL (bbls/d)	**2,603**	2,473	**2,573**	2,667
Natural Gas (MMcf/d)	**58.4**	58.2	**58.8**	60.7
Royalty Production (BOE/d)(4)	**19,871**	18,745	**19,654**	19,845
Realized Pricing				
Crude Oil ($/bbl)	**72.63**	41.11	**65.24**	36.82
NGL ($/bbl)	**42.03**	21.43	**36.86**	21.92
Natural Gas ($/Mcf)	**2.90**	1.62	**2.61**	1.52
Total ($/BOE)(4)	**41.57**	22.27	**36.83**	20.71
Operating Netback per BOE(3)	**38.56**	19.89	**33.64**	17.75
Funds from Operations per BOE	**36.21**	21.98	**31.98**	19.44
Oil Price Benchmarks				
West Texas Intermediate (WTI) (US$/bbl)	**70.56**	40.93	**64.82**	38.32
Edmonton Light Sweet ($/bbl)	**83.78**	49.80	**75.88**	43.70
Western Canadian Select (WCS) crude oil differential to WTI (US$/bbl)	**(13.58)**	(9.09)	**(12.51)**	(13.69)
Natural Gas Price Benchmark				
AECO monthly index ($/Mcf)	**3.54**	2.15	**3.11**	2.07
AECO daily index ($/Mcf)	**3.60**	2.27	**3.28**	2.10
Foreign Exchange Rate (US$/CAD$)	**0.7939**	0.7511	**0.7995**	0.7393

(1) Net Earnings and Funds from Operations per Share are calculated using the weighted average number of basic and diluted common shares outstanding.
(2) A dividend of $0.09 per common share was declared on September 7, 2021. The dividend was paid on October 15, 2021 to shareholders of record as at September 30, 2021.
(3) Net Debt and Operating Netback per BOE are defined under the Non-GAAP Measures section in this MD&A.
(4) See "Conversions of Natural Gas to BOE".

Results Overview

HIGHLIGHTS

Highlights of PrairieSky's financial results for the three months ended September 30, 2021 ("Q3 2021") include:

- Revenues totaled $78.1 million, consisting of $76.0 million of royalty production revenue, $1.1 million of lease rental income, $0.7 million of bonus consideration and $0.3 million of other income.
- Funds from operations totaled $66.2 million ($0.30 per share basic and diluted).
- Royalty production averaged 19,871 BOE per day (51% liquids) consisting of average crude oil royalty production volumes of 7,535 barrels per day, average NGL royalty production volumes of 2,603 barrels per day and average natural gas royalty production volumes of 58.4 MMcf per day.
- Dividends declared of $20.0 million ($0.09 per share).
- Purchased for cancellation 586,900 common shares at a weighted average price of $13.71 per common share for total consideration of $8.0 million under the normal course issuer bid ("NCIB").
- On July 19, 2021, the Company closed the acquisition of a gross overriding royalty on lands in the Marten Hills Clearwater area of Alberta (the "Marten Hills Acquisition") for cash consideration of $155.0 million.
- On August 25, 2021, the Company closed the acquisition of a royalty portfolio consisting of fee mineral title and royalty interest lands primarily in Central Alberta for $34.8 million, before adjustments.
- On September 29, 2021, the Company expanded the Credit Facility (as defined herein) to $425 million, with a permitted increase to $500 million, and extended the maturity date to February 28, 2025. In addition, the Company incorporated a pricing mechanism linked to a third-party sustainability rating to establish a sustainability-linked credit facility.

Highlights of PrairieSky's financial results for the nine months ended September 30, 2021 ("YTD 2021") include:

- Revenues totaled $207.4 million, consisting of $197.6 million of royalty production revenue, $4.1 million of lease rental income, $4.4 million of bonus consideration and $1.3 million of other income.
- Funds from operations totaled $171.6 million ($0.77 per share basic and diluted).
- Royalty production averaged 19,654 BOE per day (50% liquids) consisting of average crude oil royalty production volumes of 7,281 barrels per day, average NGL royalty production volumes of 2,573 barrels per day and average natural gas royalty production volumes of 58.8 MMcf per day.
- Dividends declared of $49.0 million ($0.22 per share).
- Purchased for cancellation 1,567,900 common shares at a weighted average price of $13.52 per common share for total consideration of $21.2 million under the NCIB.
- On February 23, 2021, the Company closed the acquisition of a royalty portfolio for cash consideration of $45.0 million, before adjustments, consisting of fee mineral title and royalty interest lands in Western Canada, and ownership of a seismic database complementary to the Company's existing Royalty Properties as well as the acquired assets.

PRAIRIESKY'S 2021 OUTLOOK

Management does not provide guidance. As such, this discussion relates only to general economic conditions experienced by the Company as of the date of this MD&A. The novel coronavirus (COVID-19) pandemic continues to impact the global economy in 2021; however, benchmark pricing for all commodities has improved to levels above pre-pandemic commodity pricing which has positively impacted third-party producers and, in turn, PrairieSky. The timing of a full economic recovery is challenging to forecast, with the overall outlook on crude oil demand largely dependent on the status of COVID-19 and the spread of variants, vaccine rollouts, changes to social restrictions and businesses resuming regular operations. Benchmark crude oil pricing has positively responded to global participants maintaining production cuts and a global economic recovery and natural gas demand and pricing remain strong, but the potential for volatility remains. Management continues to monitor current commodity prices, currency exchange rates, industry activity levels and third-party anticipated capital expenditures for the remainder of 2021 and beyond. Given PrairieSky has no operational control over capital expenditures on its lands, it is difficult to predict activity levels and the timing thereof with a high degree of certainty.

PrairieSky's Strategy

The Company's objective is to generate significant cash flow and returns for shareholders through indirect crude oil and natural gas investment at relatively low risk and low cost to the Company. The Company seeks to achieve this objective by: (i) focusing on leasing activity and organic growth of royalty production revenue from the Royalty Properties; (ii) proactively monitoring and managing the portfolio of Royalty Properties to ensure third-party adherence to lease terms and contractual provisions (including offset well obligations); (iii) managing controllable costs; and (iv) selectively pursuing strategic business development opportunities that are relatively low risk to the Company and accretive to shareholders. The Company intends to distribute the majority of cash flow to shareholders in the form of dividends and share repurchases and cancellations over time.

PrairieSky remains disciplined in its strategy and business model which provides robust operating margins in all commodity cycles. Management continues to deploy its risk mitigating strategies including proactive monitoring of economic conditions, a constant and proactive compliance and collections program, paying close attention to controllable costs and a disciplined approach to acquisitions. PrairieSky has consistently maintained a strong balance sheet and employs a conservative capital structure. On July 19, 2021, the Company announced that the Board increased the quarterly dividend 38% to $0.09 per common share effective for the September 30, 2021 record date.

Business Overview

PRAIRIESKY ROYALTY

PrairieSky's asset base includes a geologically and geographically diverse portfolio of Fee Lands (as defined herein) that encompasses approximately 8.2 million acres with petroleum and/or natural gas rights and approximately 8.1 million acres of GORR Lands (as defined herein) and other acreage (collectively, the "Royalty Properties").

The Royalty Properties are comprised of: (i) fee simple mineral title lands prospective for petroleum, natural gas, NGL and other minerals located predominantly in Central and Southern Alberta and Western Saskatchewan (the "Fee Lands"); (ii) lessor interests in and to leases that are currently issued in respect of certain Fee Lands ("Lessor Interests"); and (iii) crude oil and natural gas overriding royalty interests, gross overriding royalty interests, net profit interests and production payments ("GORR Interests") on lands ("GORR Lands") across Western Canada.

PrairieSky is focused on encouraging third parties to actively develop the Royalty Properties and growing our royalty ownership by strategically seeking additional royalty assets that provide PrairieSky with medium-term to long-term value enhancement potential. The Company does not directly conduct operations to explore for, develop or produce petroleum, NGL or natural gas; rather, third-party development of the Royalty Properties provides the Company with royalty production revenues as crude oil, NGL and natural gas are produced from such properties. PrairieSky's operations include royalty income earned through crude oil, NGL and natural gas produced on the Royalty Properties. The Company's royalty production revenues are derived from: (i) the Lessor Interests that are leased out by the Company and upon which lessees pay lessor royalties, and (ii) GORR Interests on GORR Lands.

Petroleum and natural gas royalty structures are typically linked directly to production volumes from the Royalty Properties, with certain royalty structures linked to production volumes and/or price. As a result, the Company's net earnings can be significantly impacted by fluctuations in commodity prices and production volumes. Production volumes can be influenced by various factors, including the extent of exploration and development activity by third parties on the Royalty Properties, the timing and amount of capital expenditures and field operations, and the expertise and financial resources of third-party lessees. Commodity pricing is influenced by market supply and demand as well as other factors such as weather, quality of product, access to markets, foreign currency fluctuations, geopolitical risk, and macroeconomic events including, since early 2020, the onset and trajectory of the COVID-19 global pandemic. The Company is able to mitigate some of these risks to the extent that there is a diversity of third parties actively exploring and developing the Royalty Properties, with a balanced production mix of natural gas, crude oil, and NGL, and by maintaining a low-cost business with a conservative and sustainable capital structure.

PrairieSky receives royalty production revenue from approximately 37,500 wells and receives payments from approximately 315 different industry payors. The Company receives approximately 75% of its monthly revenue from 31 payors. Royalties are calculated on a fixed percentage, step or sliding scale formula. Some royalty agreements allow for the deduction of certain handling, processing, and transportation costs.

As a royalty owner, PrairieSky does not bear the operational risks typically associated with the upstream petroleum and natural gas exploration and production business. The Company is not responsible for the operational or financial risks of drilling, completing or operating wells and related infrastructure. The Company is not responsible for site restoration and abandonment costs. Capital, operational and abandonment costs are the responsibility of the third parties conducting operations on the Royalty Properties. Substantially all the capital expenditures made by PrairieSky are discretionary. Costs incurred by the Company are primarily production and mineral taxes, administrative expenses and corporate income taxes.

Royalty Production

Royalty Production Volumes

	Three months ended September 30		**Nine months ended September 30**	
(Average daily)	**2021**	**2020**	**2021**	**2020**
Crude Oil (bbls/d)	**7,535**	6,572	**7,281**	7,061
NGL (bbls/d)	**2,603**	2,473	**2,573**	2,667
Natural Gas (MMcf/d)	**58.4**	58.2	**58.8**	60.7
Total Royalty Production (BOE/d)	**19,871**	18,745	**19,654**	19,845

PrairieSky's average daily royalty production volumes for Q3 2021 were comprised of 38% crude oil, 13% NGL and 49% natural gas as compared to the three months ended September 30, 2020 ("Q3 2020") when the production volume split was 35% crude oil, 13% NGL and 52% natural gas. The average daily royalty production volumes for YTD 2021 were comprised of 37% crude oil, 13% NGL and 50% natural gas as compared to the nine months ended September 30, 2020 ("YTD 2020") when the production volume split was 36% crude oil, 13% NGL and 51% natural gas. There is a natural delay between the timing of production and when PrairieSky receives its royalty interest production volumes and revenue from operators. Due to this delay, positive and negative adjustments related to prior periods may be included in PrairieSky's royalty production volumes and/or revenue. PrairieSky's compliance department continually reviews leasing agreements, and royalty calculations and collections related to compliance recoveries result in adjustments to royalty production volumes and royalty revenue related to prior periods. Compliance adjustments are not recorded in the financial statements until collection is received.

PrairieSky's crude oil, NGL and natural gas production volumes are primarily marketed with lessees' production. The Company actively reviews its counterparties and takes certain royalty production volumes in-kind to mitigate credit risk, as appropriate. PrairieSky is exposed to commodity price volatility. The Company has no commodity price hedges in place and does not currently intend to enter into any commodity price hedges.

For the three months ended September 30, 2021

Crude oil royalty production volumes for Q3 2021 of 7,535 barrels per day have increased 15% from 6,572 barrels per day reported in Q3 2020 when volumes were impacted by shut-ins related to low WTI benchmark pricing and reductions in new development activity due to the global demand deterioration from COVID-19. The increase in crude oil royalty production is a result of incremental production volumes from acquisitions and new drilling by third-party operators offsetting natural declines.

NGL royalty production volumes for Q3 2021 of 2,603 barrels per day increased 5% from 2,473 barrels per day reported in Q3 2020 with incremental production from acquisitions and new wells on stream offsetting natural declines.

Natural gas royalty production volumes for Q3 2021 of 58.4 MMcf per day were consistent with the 58.2 MMcf per day reported in Q3 2020 as production volumes from new liquids rich wells on stream and incremental acquisition volumes offset natural declines and third-party down-time.

For the nine months ended September 30, 2021

Crude oil royalty production volumes for YTD 2021 of 7,281 barrels per day have increased 3% from 7,061 barrels per day reported in YTD 2020. The increase in crude oil royalty production was primarily as a result of the resumption of exploration and development activity by third-party operators and incremental production volumes from acquisitions exceeding natural declines.

NGL royalty production volumes for YTD 2021 of 2,573 barrels per day have decreased 4% from 2,667 barrels per day reported in YTD 2020. Incremental production from new wells, along with acquired production, were offset with natural declines from existing wells. In addition, YTD 2020 NGL royalty production volumes included prior period adjustments related to new high-rate Montney wells that came on stream increasing production that were not repeated in YTD 2021.

Natural gas royalty production volumes for YTD 2021 of 58.8 MMcf per day were 3% lower than the 60.7 MMcf per day reported in YTD 2020. Western Canada was impacted by unseasonably cold weather during Q1 2021, leading to volume freeze-offs which, combined with third-party down-time and natural declines, offset new wells on stream and royalty production volumes from acquisitions.

Financial Results

Operating Results

	Three months ended September 30, 2021		Three months ended September 30, 2020	
	($ millions)	($/BOE)(2)	($ millions)	($/BOE)(2)
Royalty Production Revenue	**$ 76.0**	**$ 41.57**	$ 38.4	$ 22.27
Production and Mineral Taxes	**(1.2)**	**(0.66)**	(0.6)	(0.35)
Cash Administrative Expenses(1)	**(4.3)**	**(2.35)**	(3.5)	(2.03)
Operating Netback(1)	**$ 70.5**	**$ 38.56**	$ 34.3	$ 19.89
Operating Margin(1)	**93%**	**93%**	89%	89%

(1) Non-GAAP measure. See "Non-GAAP Measures" in this MD&A.
(2) See "Conversions of Natural Gas to BOE".

	Nine months ended September 30, 2021		Nine months ended September 30, 2020	
	($ millions)	($/BOE)(2)	($ millions)	($/BOE)(2)
Royalty Production Revenue	**$ 197.6**	**$ 36.83**	$ 112.6	$ 20.71
Production and Mineral Taxes	**(2.3)**	**(0.43)**	(1.6)	(0.29)
Cash Administrative Expenses(1)	**(14.8)**	**(2.76)**	(14.5)	(2.67)
Operating Netback(1)	**$ 180.5**	**$ 33.64**	$ 96.5	$ 17.75
Operating Margin(1)	**91%**	**91%**	86%	86%

(1) Non-GAAP measure. See "Non-GAAP Measures" in this MD&A.
(2) See "Conversions of Natural Gas to BOE".

The Q3 2021 operating netback of $70.5 million ($38.56 per BOE) has increased 106% from $34.3 million ($19.89 per BOE) in Q3 2020 primarily as a result of increases in realized commodity pricing combined with higher production volumes for all products. Changes in administrative expenses and production and mineral taxes are further discussed below.

The YTD 2021 operating netback of $180.5 million ($33.64 per BOE) has increased 87% from $96.5 million ($17.75 per BOE) in YTD 2020 as a result of increases in realized commodity pricing offsetting modestly lower total average production volumes. Changes in administrative expenses and production and mineral taxes are further discussed below.

Revenues

($ millions) **Royalty Production Revenue by Product**	**Three months ended September 30** **2021**	 **2020**	**Nine months ended September 30** **2021**	 **2020**
Crude Oil	**$ 50.3**	$ 24.8	**$ 129.7**	$ 71.2
NGL	**10.1**	4.9	**25.9**	16.0
Natural Gas	**15.6**	8.7	**42.0**	25.4
	76.0	38.4	**197.6**	112.6
Other Revenue				
Lease Rental Income	**$ 1.1**	$ 1.2	**$ 4.1**	$ 4.1
Bonus Consideration	**0.7**	1.8	**4.4**	4.9
Other Income	**0.3**	2.1	**1.3**	2.8
	2.1	5.1	**9.8**	11.8
Total Revenues	**$ 78.1**	$ 43.5	**$ 207.4**	$ 124.4

($ millions) Revenues by Classification	**Three months ended September 30** **2021**	 **2020**	**Nine months ended September 30** **2021**	 **2020**
Lessor Interests on Fee Lands	**$ 45.7**	$ 24.9	**$ 120.2**	$ 70.5
GORR Interests	**30.3**	13.5	**77.4**	42.1
Royalty Production Revenue	**76.0**	38.4	**197.6**	112.6
Other Revenue	**2.1**	5.1	**9.8**	11.8
Total Revenues	**$ 78.1**	$ 43.5	**$ 207.4**	$ 124.4

Pricing	**Three months ended September 30** **2021**	 **2020**	**Nine months ended September 30** **2021**	 **2020**
Benchmark				
WTI (US$/bbl)	**70.56**	40.93	**64.82**	38.32
Edmonton Light Sweet ($/bbl)	**83.78**	49.80	**75.88**	43.70
WCS Differential to WTI (US$/bbl)	**(13.58)**	(9.09)	**(12.51)**	(13.69)
AECO Monthly Index ($/Mcf)	**3.54**	2.15	**3.11**	2.07
AECO Daily Index ($/Mcf)	**3.60**	2.27	**3.28**	2.10
Foreign Exchange Rate (US$/CAD$)	**0.7939**	0.7511	**0.7995**	0.7393

Realized Pricing	**Three months ended September 30** **2021**	 **2020**	**Nine months ended September 30** **2021**	 **2020**
Crude Oil ($/bbl)	**72.63**	41.11	**65.24**	36.82
NGL ($/bbl)	**42.03**	21.43	**36.86**	21.92
Natural Gas ($/Mcf)	**2.90**	1.62	**2.61**	1.52
Total ($/BOE)	**41.57**	22.27	**36.83**	20.71

The Company's average royalty rate for all producing wells on the Royalty Properties was approximately 6% in both Q3 2021 and Q3 2020. During Q3 2021, royalty production revenue was $76.0 million compared to $38.4 million for the same period in 2020, an increase of 98% as a result of higher average realized pricing detailed below and increased royalty production volumes for all products as previously discussed.

During Q3 2021, revenue from Lessor Interests on Fee Lands was $45.7 million or 60% of total royalty production revenue. Revenue from GORR Interests was $30.3 million or 40% of total royalty production revenue for the same period. In the comparative period, $24.9 million or 65% of royalty production revenue was generated from Lessor Interests on Fee Lands and $13.5 million or 35% from GORR Interests. In addition to royalty revenue from Lessor Interests, all lease rental income and bonus consideration are generated from Fee Lands.

The Company's average royalty rate for all producing wells on the Royalty Properties was approximately 6% in both YTD 2021 and YTD 2020. During YTD 2021, royalty production revenue was $197.6 million compared to $112.6 million for the same period in 2020, an increase of 75% as a result of higher average realized pricing for all products as discussed below.

During YTD 2021, revenue from Lessor Interests on Fee Lands was $120.2 million or 61% of total royalty production revenue. Revenue from GORR Interests was $77.4 million or 39% of total royalty production revenue for the same period. In the comparative period, $70.5 million or 63% of royalty production revenue was generated from Lessor Interests on Fee Lands and $42.1 million or 37% from GORR Interests. In addition to royalty revenue from Lessor Interests, all lease rental income and bonus consideration are generated from Fee Lands.

During Q3 2021, the Company averaged realized crude oil pricing of $72.63 per barrel, NGL pricing of $42.03 per barrel and natural gas pricing of $2.90 per Mcf. The realized pricing on all products increased from Q3 2020 when the Company averaged realized crude oil pricing of $41.11 per barrel, NGL pricing of $21.43 per barrel and natural gas pricing of $1.62 per Mcf. The onset of the COVID-19 pandemic in Q1 2020 resulted in a sharp and rapid decline in global demand which, combined with global crude oil over supply, resulted in a significant decline in benchmark WTI pricing beginning in March 2020. This resulted in lower realized pricing for crude oil and NGL in Q3 2020 as compared to Q3 2021 as demand has improved and supply constraints have contributed to a more constructive market equilibrium. Improved crude oil benchmark pricing in Q3 2021 was partially offset by wider light and heavy oil differentials and a stronger Canadian dollar compared to Q3 2020. Q3 2021 realized NGL pricing increased 96% over Q3 2020 due to improved benchmark pricing. Realized natural gas prices increased 79% in Q3 2021 as compared to Q3 2020 due to strong average monthly and daily AECO and Station 2 benchmark pricing.

YTD 2021, the Company averaged realized crude oil pricing of $65.24 per barrel, NGL pricing of $36.86 per barrel and natural gas pricing of $2.61 per Mcf. The realized pricing on all products increased from YTD 2020 when the Company averaged realized crude oil pricing of $36.82 per barrel, NGL pricing of $21.92 per barrel and natural gas pricing of $1.52 per Mcf. Benchmark pricing for crude oil increased in YTD 2021 compared to YTD 2020 as a result of the market equilibrium and increased demand noted above. In addition, the light and heavy differentials narrowed in YTD 2021 compared to YTD 2020 improving realized pricing, partially offset by a stronger Canadian dollar. YTD 2021 realized NGL pricing increased 68% over YTD 2020 due to improvements in benchmark pricing. Realized natural gas prices increased in YTD 2021 as compared to YTD 2020 due primarily to higher utilization of natural gas, which led to increased average monthly and daily AECO and Station 2 benchmark pricing.

Royalty compliance recoveries are the cash payments received as a result of the extensive process of identifying, analyzing, resolving and collecting corrected payments from royalty payors. Cash received from compliance recoveries can be related to a number of periods. PrairieSky's compliance department continually reviews leasing agreements and royalty calculations. Compliance adjustments are not recorded in the financial statements until collection of outstanding amounts is received. For Q3 2021 and YTD 2021, the Company collected $0.9 million (Q3 2020 - $1.0 million) and $2.8 million (YTD 2020 - $5.0 million) in compliance recoveries. Compliance recoveries are included in royalty production revenue for the period.

Other revenue consisted primarily of lease rental income and lease bonus consideration from new leasing arrangements as well as leases currently issued in respect of certain Fee Lands. Lease rental income for Q3 2021 and YTD 2021 was $1.1 million (Q3 2020 - $1.2 million) and $4.1 million (YTD 2020 - $4.1 million), respectively. Bonus consideration revenue for Q3 2021 and YTD 2021 was $0.7 million (Q3 2020 - $1.8 million) and $4.4 million (YTD 2020 - $4.9 million). Both the amount and timing of bonus consideration revenue can vary significantly from quarter to quarter as it relates to the unique circumstances of each transaction. Other income was $0.3 million for Q3 2021 (Q3 2020 - $2.1 million) and $1.3 million for YTD 2021 (YTD 2020 - $2.8 million) due primarily to the collection of fees under certain lease arrangements.

Administrative Expenses

($ millions)	Three months ended September 30 2021	2020	Nine months ended September 30 2021	2020
Salaries and Benefits	**$ 2.9**	$ 2.3	**$ 8.9**	$ 8.2
Share-Based Compensation	**0.4**	0.6	**8.1**	0.9
Office Expense	**0.7**	0.5	**2.4**	1.8
Public Company Expense	**0.2**	0.3	**1.4**	1.3
Information Technology and Other	**0.5**	0.4	**1.4**	1.5
Total Administrative Expenses	**$ 4.7**	$ 4.1	**$ 22.2**	$ 13.7
Administrative Expenses per BOE(1)	**$ 2.57**	$ 2.38	**$ 4.14**	$ 2.52
Cash Administrative Expenses(2)	**$ 4.3**	$ 3.5	**$ 14.8**	$ 14.5
Cash Administrative Expenses per BOE(1)(2)	**$ 2.35**	$ 2.03	**$ 2.76**	$ 2.67

(1) See "Conversions of Natural Gas to BOE".
(2) Non-GAAP measure. See "Non-GAAP Measures" in the MD&A.

PrairieSky is committed to continuous improvement, including controlling costs and optimizing technology across the business to generate long-term efficiencies. Administrative expenses for Q3 2021 and YTD 2021 were $2.57 per BOE (Q3 2020 - $2.38 per BOE) and $4.14 per BOE (YTD 2020 - $2.52 per BOE), respectively. Administrative expenses include both cash and non-cash charges which relate to share-based compensation plans. Administrative expenses related to restricted share units ("RSUs"), preferred share units ("PSUs"), officer deferred share units ("ODSUs"), and deferred share units for directors ("DSUs") are impacted by the closing share price at period end and as such, are subject to variability. The market common share price used in the fair value calculation of share-based compensation at September 30, 2021 was $13.51, as compared to $8.31 at September 30, 2020, resulting in the increase in the expense recorded in the periods.

Cash administrative expenses for Q3 2021 were $2.35 per BOE, a 16% increase from Q3 2020 cash administrative expenses of $2.03 per BOE primarily as a result of the Company accessing the Canadian Emergency Wage Subsidy in Q3 2020 which was put in place to support businesses as a result of COVID-19. The subsidy was collected in Q3 2020, with an impact of $0.7 million or $0.41 per BOE. PrairieSky voluntarily withdrew from the Canadian Emergency Wage Subsidy program in January 2021 and has not received any subsidy amounts in 2021. Cash administrative expenses for YTD 2021 were $2.76 per BOE, in line with YTD 2020 cash administrative expenses of $2.67 per BOE.

Company payouts related to share-based compensation for the entire organization during Q3 2021 were $nil (Q3 2020 - $nil) and $0.7 million during YTD 2021 (YTD 2020 - $1.7 million). When cash share-based payments are made, there is an increase in cash administrative expenses in the period. Cash payments decreased in YTD 2021 compared to YTD 2020 due to lower pricing on the RSU settlement and a $nil cash settlement amount on certain PSUs held by the three executive officers which expired, unvested, in Q1 2021 due to bottom quartile share price performance over a trailing three-year period compared to a pre-determined peer group. For more information, see the Company's Information Circular and Proxy Statement dated March 3, 2021 which is available on the Company's website at www.prairiesky.com.

($ millions) Share-Based Compensation	Three months ended September 30 2021	2020	Nine months ended September 30 2021	2020
Stock Option Expense	**$ 0.1**	$ 0.2	**$ 0.4**	$ 0.8
PSU Expense	**0.5**	0.4	**3.3**	0.4
RSU Expense	**0.2**	0.1	**1.0**	0.2
ODSU Expense	**0.2**	-	**0.9**	0.1
DSU Expense (Recovery)	**(0.6)**	(0.1)	**2.5**	(0.6)
Total Share-Based Compensation Expense	**$ 0.4**	$ 0.6	**$ 8.1**	$ 0.9

Share-based compensation expense is impacted by the closing share price at period end as discussed above. Total outstanding units and options from all employee, officer, and director incentive plans are less than 1.0% of total common shares outstanding at September 30, 2021.

Production and Mineral Taxes

($ millions, except per BOE amounts)	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Production and Mineral Taxes	**$ 1.2**	$ 0.6	**$ 2.3**	$ 1.6
$/BOE(1)	**$ 0.66**	$ 0.35	**$ 0.43**	$ 0.29

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

Production and mineral taxes are levied on an annual basis on the value of crude oil and natural gas production or amount of acreage from non-Crown lands. For Q3 2021 and Q3 2020, production and mineral taxes, which includes Alberta Freehold Mineral Tax and Saskatchewan acreage tax, were 1.6% of royalty production revenue. YTD 2021, production and mineral taxes totaled 1.2% of royalty production revenue compared to 1.4% in YTD 2020. Production and mineral taxes are based on an annual estimate which can result in variances from quarter to quarter.

Depletion, Depreciation and Amortization ("DD&A")

($ millions, except per BOE amounts)	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Depletion, Depreciation and Amortization	**$ 25.7**	$ 25.9	**$ 72.2**	$ 81.3
$/BOE(1)	**$ 14.06**	$ 15.02	**$ 13.46**	$ 14.95

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

The Company depletes its royalty assets using the unit-of-production method based on the total proved and probable reserves of its Royalty Properties. Corporate assets, including the right-of-use asset associated with the office lease, are depreciated on a straight-line basis. DD&A per BOE is lower in Q3 2021 and YTD 2021 than the prior year comparative periods due to higher reserves. DD&A per BOE will fluctuate depending on the royalty assets acquired, if any, the amount of reserves added, and production volumes in the period.

Exploration and Evaluation Expense ("E&E")

($ millions, except per BOE amounts)	Three months ended September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Exploration and Evaluation Expense	**$ 1.8**	$ 0.6	**$ 6.3**	$ 4.9
$/BOE(1)	**$ 0.98**	$ 0.35	**$ 1.17**	$ 0.90

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

During Q3 2021 and YTD 2021, $1.8 million (Q3 2020 - $0.6 million) and $6.3 million (YTD 2020 - $4.9 million), respectively, of costs associated with expired Crown mineral leases and GORR Interests were recognized as an expense. The expense will vary period to period as a result of the timing of lease expiries, if any.

Finance

Finance expense of $1.0 million in Q3 2021 (Q3 2020 - $0.4 million) and $2.0 million in YTD 2021 (YTD 2020 - $1.0 million) has increased from the prior year comparative periods primarily as a result of the increase in bank debt due to the acquisitions of incremental royalty interests completed during 2021.

Income Tax

($ millions)	Three months ended September 30 2021	2020	Nine months ended September 30 2021	2020
Current Tax Expense	**$ 5.6**	$ 1.1	**$ 17.0**	$ 1.7
Deferred Tax Expense	**4.4**	1.4	**5.8**	2.6
Income Tax Expense	**$ 10.0**	$ 2.5	**$ 22.8**	$ 4.3

The Company's interim income tax expense is determined using the estimated annual effective income tax rate applied to year-to-date net earnings before tax. The Company's effective tax rate differs from PrairieSky's combined Provincial and Federal statutory tax rate of 23.6% primarily as a result of the reversal of the initial difference between the carrying value of net assets transferred and the tax pools acquired on May 27, 2014, for which no deferred tax asset was recognized, partially offset by non-deductible employee-related expenses. In addition, the Company has not recognized taxable temporary differences of $155.0 million related to the excess of the carrying value of net assets over the tax pools acquired on asset acquisitions that were not a business combination during the nine months ended September 30, 2021 and were therefore subject to the initial recognition exemption under IAS 12 "Income Taxes."

Net Earnings

Net earnings for Q3 2021 was $33.7 million ($0.15 per share, basic and diluted) and net earnings for YTD 2021 was $79.6 million ($0.36 per share, basic and diluted). Net earnings for Q3 2020 were $9.4 million ($0.04 per share, basic and diluted) and net earnings for YTD 2020 were $17.6 million ($0.08 per share, basic and diluted). Net earnings for both periods in 2021 were higher than 2020 as a result of the increase in royalty production revenues previously described more than offsetting the increases in administrative expenses and income tax expense.

Acquisitions

During Q3 2021, the Company completed acquisitions totaling $190.1 million (Q3 2020 - $nil) comprised of $60.2 million of producing assets included in royalty assets and $129.9 million of E&E assets, consisting of royalty interests on non-producing properties. Acquisitions included the Marten Hills Acquisition as well as a portfolio of fee mineral title and other royalty interests located primarily in Central Alberta.

YTD 2021, the Company completed acquisitions totaling $241.8 million (YTD 2020 - $6.7 million) comprised of $80.5 million of producing properties included in royalty assets (YTD 2020 - $4.7 million) and $161.3 million (YTD 2020 - $2.0 million) of E&E assets, consisting of royalty interests on non-producing properties, and seismic. In addition to the acquisitions described above, the Company completed the acquisition of a portfolio of fee mineral title and GORR Interests, along with seismic, across Western Canada.

Liquidity and Capital Resources

($ millions)	Three months ended September 30 2021	2020	Nine months ended September 30 2021	2020
Net Cash From (Used In)				
Operating Activities	**$ 66.8**	$ 33.8	**$ 169.9**	$ 112.8
Investing Activities	**(190.1)**	-	**(242.6)**	(6.7)
Financing Activities	**123.3**	(33.8)	**72.7**	(106.1)
Change in Cash and Cash Equivalents	**$ -**	$ -	**$ -**	$ -
Cash and Cash Equivalents, Beginning of Period	**$ -**	$ -	**$ -**	$ -
Cash and Cash Equivalents, End of Period	**$ -**	$ -	**$ -**	$ -

Operating Activities

Net cash from operating activities for Q3 2021 and YTD 2021 was $66.8 million and $169.9 million, respectively, as compared to $33.8 million and $112.8 million for the comparable periods in 2020. Net cash from operating activities is generated from funds from operations and the net change in non-cash working capital. Funds from operations is utilized by management to evaluate the ability of the Company to generate cash from its operations. This is considered a measure of operating performance as it demonstrates the Company's ability, on an ongoing basis, to fund distributions of cash flow to shareholders as dividends, to repurchase common shares under the Company's NCIB, and fund complementary acquisitions. Such a measure provides a useful indicator of the Company's operations, on an ongoing basis, by eliminating certain non-cash charges. Funds from operations in Q3 2021 and YTD 2021 was $66.2 million and $171.6 million, respectively, an increase of 75% from $37.9 million in Q3 2020 and an increase of 62% from $105.7 million in YTD 2020 primarily due to the increase in benchmark commodity pricing for all products.

	Three months ended September 30		Nine months ended September 30	
($ millions)	**2021**	**2020**	**2021**	**2020**
Funds from Operations	**$ 66.2**	$ 37.9	**$ 171.6**	$ 105.7
Funds from Operations as a % of Total Revenues	**85%**	87%	**83%**	85%

Investing Activities.

For Q3 2021 and YTD 2021, cash used in investing activities was $190.1 million (Q3 2020 - $nil) and $242.6 million (Q3 2020 - $6.7 million), respectively, and included royalty and E&E asset acquisitions as outlined in the "Acquisitions" section of this MD&A.

Financing Activities

For Q3 2021 and YTD 2021, cash from financing activities was $123.3 million (Q3 2020 - cash used in financing activities was $33.8 million) and $72.7 million (Q3 2020 - cash used in financing activities was $106.1 million), respectively, due to bank debt draws in 2021 to fund the acquisitions as noted above, offset by dividends and share repurchases and cancellations. Dividends paid in Q3 2021 were $14.5 million (Q3 2020 - $13.9 million) and $42.4 million for YTD 2021 (YTD 2020 - $74.4 million), respectively. In addition, the Company repurchased $8.0 million in common shares under the NCIB in Q3 2021 (Q3 2020 - $81.8 million) and $21.2 million in YTD 2021 (YTD 2020 - $90.9 million) as described below.

Since the initial public offering in May 2014 (the "IPO"), PrairieSky has declared $1,167.1 million in dividends to shareholders. Since inception of the NCIB in 2016, PrairieSky has purchased for cancellation 16.6 million common shares at an average cost of $14.77 per share for total consideration of $244.9 million.

Changes in Net Debt

During YTD 2021, the Company has generated funds from operations of $171.6 million, repurchased and cancelled shares for $21.2 million, declared dividends of $49.0 million, and made royalty acquisitions of $241.8 million. The Company had net debt of $187.7 million at September 30, 2021, up from $42.0 million at December 31, 2020, due to the acquisitions discussed above. Long-term bank debt at September 30, 2021, net of unamortized debt issuance costs of $1.2 million, was $179.9 million. The bank debt balance has been reclassified to long-term liabilities as a result of the Credit Facility extension of the maturity date to February 28, 2025, as discussed below.

At September 30, 2021, accounts receivable and accrued royalty revenue consisted primarily of accrued revenue related to royalty payments and production and mineral taxes receivable from third-party operators. In the crude oil and natural gas industry, accounts receivable from industry partners are typically settled in the month following production; however, payments to royalty owners are often delayed longer, and as a result, actual payments may differ from estimates recorded. Accounts payable and accrued liabilities consisted primarily of production and mineral taxes payable, share-based compensation and salary-related accruals. The working capital deficiency included $5.1 million (December 31, 2020 - $2.6 million) related to the liability for vested cash-settled DSUs for Board members which may or may not be paid in the next twelve months as amounts only become payable when a director is no longer a member of the Board.

Bank Debt

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

On September 29, 2021, the Company further expanded the Credit Facility to $425 million and extended the maturity date from January 30, 2023 to February 28, 2025. The Credit Facility has a permitted increase to $500 million, subject to lender consent, and, subject to certain requirements, may be extended on an annual basis. In conjunction with increase and extension, the Company added a sustainability-linked pricing mechanism as further described below.

At September 30, 2021, $181.1 million was drawn on the Credit Facility (December 31, 2020 - $42.9 million). The effective interest rate for the three and nine months ended September 30, 2021 was 1.9% (three months ended September 30, 2020 - 2.1%) and 2.0% (nine months ended September 30, 2020 - 2.8%), respectively.

The Credit Facility includes borrowing options of Canadian prime rate-based advances, U.S. base rate advances, bankers' acceptances and letters of credit, and will bear interest on a variable grid based on certain financial ratios, over the prevailing applicable rate for the type of loan. As part of the aforementioned extension, the Company amended the Credit Facility to include a sustainability-linked pricing mechanism which may reduce or increase borrowing costs by a maximum of 5 basis points based on the Company's environmental, social and governance ("ESG") performance, determined by a third-party ESG rating agency. The Credit Facility is unsecured and does not have a borrowing base restriction.

The Credit Facility has three financial covenants, which have remained unchanged, whereby the Company's ratio of adjusted consolidated senior debt to EBITDA for the trailing 12 months will not exceed 3.5:1.0, adjusted consolidated total debt to EBITDA for the trailing 12 months will not exceed 4.0:1.0, and the adjusted consolidated total debt to capitalization ratio will not exceed 55%. EBITDA used in the covenant calculation is net earnings adjusted for non-cash items, interest expense and income taxes. All covenants are calculated as at, and for the 12 months ending September 30, 2021. As at September 30, 2021, the Company was compliant with all covenants provided for in the lending agreement.

The following table provides a listing of the key financial covenants as at September 30, 2021:

Covenant Description[1]	Ratio	September 30, 2021
Adjusted Consolidated Senior Debt to EBITDA	Maximum 3.5:1	0.8
Adjusted Consolidated Total Debt to EBITDA	Maximum 4.0:1	0.8
Adjusted Consolidated Total Debt to Capitalization	Maximum 55%	7.2%

(1) Capitalized terms are as defined in the Credit Facility agreement.

The covenants noted above are subject to specific definitions in the Credit Facility agreement.

Dividends and Dividend Policy

PrairieSky pays dividends to shareholders at the discretion of the Board. Dividends declared were $20.0 million or $0.09 per share for Q3 2021 and $49.0 million or $0.22 per share for YTD 2021.

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

Outstanding Share Data

As at September 30, 2021 and October 25, 2021, PrairieSky had 221.7 million common shares outstanding (December 31, 2020 - 223.3 million) and 1.3 million outstanding stock options (December 31, 2020 - 1.6 million) which have a weighted average exercise price of $22.59, well in excess of the current share price.

Capital Management

The Company's objective when managing its capital structure is to maintain financial flexibility in order to distribute cash to shareholders in the form of dividends and to repurchase shares for cancellation after consideration of the Company's financial requirements for its business and future business development activities. As a royalty company, PrairieSky does not incur capital expenditures for crude oil and natural gas development, which differentiates its cost structure from producers and enhances its financial flexibility.

The Company's capital structure is comprised of long-term debt, 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, income taxes, available Credit Facility and other factors. The Company's operating results and capital structure are impacted by the level of leasing and development activity by third parties on the Royalty Properties, commodity prices and the resultant royalty production revenues, as well as the costs incurred by the Company.

Stewardship of the Company's capital structure is managed through its financial and operating forecast process. The Company's forecast of future cash flows is based on estimates of production, crude oil, natural gas and NGL prices, production and mineral tax expense, administrative expenses, income taxes and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, production expectations and other factors that, in the Company's view, would impact future cash flows. The preparation of financial forecasts requires management to make assumptions and estimates which may prove incorrect over time. As a result, there may be adverse changes in cash flows, working capital or debt levels that are currently unforeseen.

On May 20, 2021 the Company announced the approval of the renewal of its NCIB by the Toronto Stock Exchange ("TSX"). The NCIB allows the Company to purchase for cancellation up to a maximum of 15,135,000 common shares over a twelve-month period which commenced on May 25, 2021 and expires no later than May 24, 2022. Purchases are made on the open market through the TSX or alternative platforms at the market price of such common shares. All common shares purchased under the NCIB are cancelled. At September 30, 2021, 14,424,200 common shares remained available for purchase and cancellation under the current NCIB. The actual number of common shares that may be purchased will be determined by the Company based on current and forecast funds from operations.

During Q3 2021, the Company purchased for cancellation 586,900 common shares (Q3 2020 - 8,866,991 common shares) at a weighted average price of $13.71 per common share (Q3 2020 - $9.22 per common share), including commissions, for total consideration of $8.0 million (Q3 2020 - $81.8 million). The total cost paid, including commissions and fees, was charged to share capital.

During YTD 2021, the Company purchased for cancellation 1,567,900 common shares (YTD 2020 - 9,770,691 common shares) at a weighted average price of $13.52 per common share (YTD 2020 - $9.30 per common share), including commissions, for total consideration of $21.2 million (YTD 2020 - $90.9 million). The total cost paid, including commissions and fees, was charged to share capital as there was no excess paid over the average carrying value of the common shares purchased and thus $nil (YTD 2020 - $0.2 million) was charged to the deficit.

Risk Management

Financial Risks

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

Commodity Price Risk

Commodity price risk is the risk the Company will encounter fluctuations in its future royalty revenue with changes in commodity prices. Commodity prices for crude oil, NGL and natural gas are influenced by global and regional factors, including levels of supply and demand, weather and geopolitical factors. The Company does not hedge its commodity price risk.

Interest Rate Risk

The Company is exposed to interest rate risk on its credit facility. Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. Bank debt bears interest at a floating market rate with applicable variable margins.

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. The Company's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables.

The Company maintains a compliance program to ensure royalties are paid correctly on production from the Royalty Properties in accordance with the terms of the agreements. This includes reviewing and analyzing prices obtained by the royalty payor and ensuring that unwarranted or excessive deductions are not being taken.

A substantial portion of the Company's accounts receivable are from leases, overriding royalty contracts and other agreements with crude oil and natural gas industry operators and are subject to normal industry credit risks. The Company's leasing arrangements typically provide for termination of the lease in the event of non-payment of royalties which would result in a return of the petroleum and natural gas rights to the Company. In addition, the Company actively reviews its counterparties and takes its production in-kind to mitigate credit risk, as appropriate, and has letters of credit in place with certain producers.

As at September 30, 2021, there were no counterparties whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance. The maximum credit risk exposure associated with accounts receivable and accrued revenue is the total carrying value.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties funding its financial liabilities as they come due. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund these obligations. At September 30, 2021, the Company had a net debt of $187.7 million, an increase from $42.0 million at December 31, 2020 primarily due to the Marten Hills Acquisition. The Company also has access to incremental funding alternatives through its Credit Facility, which was extended and renewed in September 2021 until February 28, 2025. At September 30, 2021, the Company has unused capacity under its Credit Facility of up to $243.9 million.

The Company's royalty production volumes and resultant revenues with high operating netbacks provide significant liquidity. The primary uses of funds are administrative expenses, production and mineral taxes, finance expenses, income taxes, dividends, the repurchase and cancellation of PrairieSky's common shares, and acquisitions. The Company's dividend, common share repurchases and capital acquisitions are discretionary.

The timing of expected cash outflows relating to accounts payable and accrued liabilities of $17.3 million, income taxes payable of $15.5 million, and the dividend payable of $20.0 million is less than one year. Included in accounts payable and accrued liabilities is $5.1 million related to vested cash-settled DSUs held by Board members which may or may not be paid in the next year as the amount only becomes payable when a director is no longer a member of the Board.

Operational and Business Risks

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

- Volatility in commodity prices and quality differentials as a result of global and North American market forces and/or shifts in the balance between supply and demand for crude oil, NGL, and natural gas, including the impacts of COVID-19 on crude oil demand;
- The timing of the full economic recovery related to the COVID-19 pandemic, including but not limited to the realized effects on the broader economy but also the potential unrealized and unforeseeable impacts which may be highly variable and cannot be predicted with a high degree of certainty;
- Access to transportation, including pipelines or other methods, for bringing crude oil, NGL and natural gas to market;
- Dependence on lessees and/or third-party operators to develop the Royalty Properties and the risks associated with exploration, development and production of crude oil and natural gas, including environmental risks and climate change, as further discussed below;
- Ability of participants in the crude oil and natural gas industry in Western Canada to access capital to develop the Royalty Properties and the industry as a whole;
- Third-party operator activity levels on the Royalty Properties and competition for land, goods and services, qualified personnel and capital funding;
- Variations in currency exchange rates;
- Imprecision of reserve estimates and uncertainty of depletion and recoverability of reserves. The Company's reserves will deplete over time through continued production and our industry partners and royalty payors may not be able to replace the reserves on the Royalty Properties on an economic basis;
- Stock market volatility and the ability to access sufficient capital from internal and external sources;
- Third-party operational risks, including facility restrictions and weather, and/or marketing risks, including take-in-kind production volumes, resulting in delivery interruptions, delays, lower realized pricing and/or unanticipated production declines;
- Changes in government regulations, including mandated production curtailments, taxation, environmental and Crown royalty rates;
- Potential breakdown, invasion, virus, cyber-attack, security breach or destruction of information technology systems;
- Increased borrowing costs due to a decreased ESG performance as determined by a third-party rating agency; and
- Variability of dividends based on PrairieSky's financial performance and/or market conditions.

The Company employs the following strategies to mitigate these risks:

- Our Royalty Properties are diversified which limits the exposure to any one royalty payor, commodity, area, region or operator;
- We are a royalty interest holder and have no direct exposure to environmental claims and regulation or the associated costs;
- We are focused on controlling direct costs in order to maximize our funds from operations;
- Our royalty interest agreements and contracts provide mechanisms to ensure that our interests are protected;

- Systems and compliance processes are in place to identify and pursue any unpaid or incorrect revenues;
- Measures and processes, which include a recovery plan, are in place to reduce the risk of cyber-attacks to protect our information systems from being breached;
- We maintain a conservative and sustainable capital structure; and
- We maintain levels of liability insurance that meet or exceed industry standards.

Environmental Risks

The Canadian petroleum and natural gas industry is currently subject to environmental regulation under a variety of Canadian federal, provincial, territorial and municipal laws and regulations, all of which are subject to governmental review and revision from time to time, as well as judicial scrutiny. These regulations are some of the most stringent and progressive in the world. Such regulations provide for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain crude oil and natural gas industry operations, including the abandonment and reclamation of well, facility and pipeline sites and the protection of water resources. Compliance with such regulations can require significant expenditures by the businesses operating on the Royalty Properties and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties. In addition, compliance with such regulations is required for a third-party to keep a lease on the Fee Lands in good standing. Failure to adhere to applicable regulations and contractual requirements can lead to a default and subsequent termination of a Fee Lands lease by PrairieSky. Further to these specific, known requirements, future changes to environmental legislation, including legislation for air pollution and greenhouse gas emissions, may impose further requirements on operators and other companies in the crude oil and natural gas industry. PrairieSky works with applicable federal, provincial and municipal regulators to ensure compliance.

Third-party operations and activities associated with the Royalty Properties emit greenhouse gases which may require parties leasing and/or operating the Royalty Properties to comply with federal and/or provincial greenhouse gas emissions legislation. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate measures that are ultimately put in place. Lessees and third-party operators of the Royalty Properties are responsible for the costs associated with environmental regulation and adherence to regulation. PrairieSky may be directly impacted by reduced industry activity or the inability to collect royalty payments. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on the Company's operations and financial condition with a high degree of certainty. Additional specific risk factors related to the environment and climate change, including a discussion on physical and transition risks, are included in PrairieSky's Annual Information Form dated February 8, 2021 and readers are encouraged to review such material, as well as PrairieSky's Responsibility Report which is located on our website at www.prairiesky.com.

FURTHER INFORMATION ON RISK FACTORS AND INDUSTRY CONDITIONS

For a detailed discussion of the risks, uncertainties and industry conditions associated with PrairieSky's business, refer to PrairieSky's Annual Information Form dated February 8, 2021, which is available under PrairieSky's SEDAR profile at www.sedar.com and at www.prairiesky.com.

Accounting Judgments, Estimates and Accounting Policies

Accounting Judgments and Estimates

Certain of the Company's accounting policies require subjective judgment about uncertain circumstances. The potential effect of these estimates, as described in the Company's 2020 Annual MD&A, have not changed during the current period. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

Control Environment

PrairieSky is required to comply with National Instrument 52-109 "Certification of Disclosure on Issuers' Annual and Interim Filings". The certification of interim filings for the interim period ended September 30, 2021, requires that PrairieSky disclose in the interim MD&A any changes in PrairieSky's internal controls over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect PrairieSky's internal controls over financial reporting. PrairieSky confirms that no such changes were identified in the Company's internal controls over financial reporting during the three months beginning on July 1, 2021 and ending on September 30, 2021.

Summary of Quarterly Results and Trends

($ millions, unless otherwise noted)	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
FINANCIAL								
Crude Oil	$ 46.9	$ 33.0	$ 13.4	$ 24.8	$ 28.0	$ 36.5	$ 42.9	**$ 50.3**
NGL	6.7	7.0	4.1	4.9	5.6	7.5	8.3	**10.1**
Natural Gas	9.8	9.1	7.6	8.7	10.0	12.7	13.7	**15.6**
Royalty Production Revenue	63.4	49.1	25.1	38.4	43.6	56.7	64.9	**76.0**
Other Revenue	3.7	3.6	3.1	5.1	3.4	2.8	4.9	**2.1**
Total Revenues	67.1	52.7	28.2	43.5	47.0	59.5	69.8	**78.1**
Funds from Operations	55.8	46.5	21.3	37.9	41.1	48.8	56.6	**66.2**
Per Share - basic and diluted(1)	0.24	0.20	0.09	0.16	0.18	0.22	0.25	**0.30**
Net Earnings (Loss)	24.3	8.6	(0.4)	9.4	14.1	18.4	27.5	**33.7**
Per Share - basic and diluted(1)	0.10	0.04	(0.00)	0.04	0.06	0.08	0.12	**0.15**
Dividends Declared(2)	45.4	45.4	13.9	13.4	13.4	14.5	14.5	**20.0**
Per Share	0.195	0.195	0.06	0.06	0.06	0.065	0.065	**0.09**
Common Share Repurchases	2.8	5.0	4.1	81.8	-	-	13.2	**8.0**
Net Debt(3)	(3.1)	(5.2)	(8.7)	(66.2)	(42.0)	(57.2)	(35.7)	**(187.7)**
OPERATIONAL								
Production Volumes								
Crude Oil (bbls/d)	8,884	8,582	6,035	6,572	7,313	7,278	7,028	**7,535**
NGL (bbls/d)	2,819	2,945	2,586	2,473	2,285	2,502	2,612	**2,603**
Natural Gas (MMcf/d)	63.0	63.8	60.3	58.2	58.1	57.6	60.5	**58.4**
Total (BOE/d)(4)	22,203	22,160	18,671	18,745	19,281	19,380	19,723	**19,871**

(1) Net Earnings and Funds from Operations per Share are calculated using the weighted average number of common shares outstanding.
(2) A dividend of $0.09 per common share was declared on September 7, 2021. The dividend was paid on October 15, 2021 to shareholders of record on September 30, 2021.
(3) Non-GAAP Measure. See "Non-GAAP Measures" section of this MD&A.
(4) See "Conversions of Natural Gas to BOE".

- Quarterly variances in revenues, funds from operations and net earnings are primarily due to fluctuations in realized commodity prices, royalty production volumes, and bonus consideration.

- Crude oil prices are generally determined by global and North American market forces, including supply and demand factors. Changes in the USD-CAD currency exchange rate impact the Company's oil price realization relative to benchmark WTI, which is referenced in US dollars. In Q1 2020, realized commodity prices were negatively impacted by wider differentials for Canadian light and heavy crude oil to WTI due to global crude oil demand and supply imbalances primarily as a result of COVID-19. Differentials narrowed subsequent to Q1 2020 but did not offset the significant decline in WTI benchmark pricing realized throughout 2020. Benchmark pricing for all commodities improved in 2021.

- Natural gas prices are influenced by many variables including weather conditions, industrial demand, and North American natural gas inventories. In Western Canada, transportation constraints further impact natural gas prices.

- Royalty production volumes can be influenced by various factors, including the extent of exploration and development activity by third parties on the Royalty Properties, the timing and amount of capital expenditures, the expertise and financial resources of third-party lessees, acquisitions of producing properties, weather and natural declines.

- Other revenue is largely affected by the timing of bonus consideration received when new leases are negotiated, which can vary with the individual terms of each agreement.

- Net earnings are affected by revenues, as noted above, as well as depletion, administrative expenses and income taxes. Administrative expenses can vary in a period due to the effect of the change in share price on the Company's share-based compensation plans. In October 2020, the Alberta government accelerated the corporate income tax rate reduction from 10% to 8% effective July 1, 2020.

- Dividends decline marginally as the number of shares outstanding in the quarter is reduced by share repurchases and cancellations under the NCIB. The dividend is set by the Board of Directors by considering forecasted funds from operations. Due to global market volatility as a result of COVID-19, the dividend was adjusted to a quarterly dividend commencing in Q2 2020 of $0.06 per common share. In Q1 2021, the quarterly dividend was increased to $0.065 per common share with a further increase to $0.09 per common share for the September 30, 2021 dividend record date.

- The Company has declared $180.5 million in dividends to shareholders and has repurchased 11.5 million common shares for $114.9 million over the past eight quarters.

- Net debt increased in Q3 2020 as a result of the significant increase in the number of shares repurchased and cancelled under the NCIB and in Q3 2021, net debt was further increased due to asset acquisitions completed in the quarter, primarily the Marten Hills Acquisition. In prior quarters, the working capital deficiency fluctuated primarily as a result of changes in commodity prices affecting the royalty production revenue accrual.

Non-GAAP Measures

Certain measures in this MD&A do not have any standardized meaning as prescribed by IFRS and therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures are commonly used in the crude oil and natural gas industry and by the Company to provide potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Non-GAAP measures include operating netback, operating netback per BOE, operating margin, cash administrative expenses, cash administrative expenses per BOE and net debt. Management's use of these measures is discussed further below.

"Operating Netback" represents the cash margin for products sold. Operating netback is calculated as royalty production revenue less production and mineral taxes and cash administrative expenses. Operating netback provides a consistent measure of the cash generating and operating performance of the Royalty Properties to assess the comparability of the underlying performance between years.

"Operating Netback per BOE" represents the cash margin for products sold on a BOE basis. Operating netback per BOE is calculated by dividing the operating netback by the average daily production volumes for the period. Operating netback per BOE is used to assess the cash generating and operating performance per unit of product sold. Operating netback per BOE measures are commonly used in the crude oil and natural gas industry to assess performance comparability. Refer to the Operating Results table in this MD&A document for a summary of this reporting period's operating netback calculations.

"Operating Margin" represents operating netback as a percentage of royalty revenue. Management uses this measure to demonstrate the comparability between the Company and production and exploration companies in the crude oil and natural gas industry as it shows net revenue generation from operations.

"Cash Administrative Expenses" represent administrative expenses excluding the volatility and fluctuations in share-based compensation expense for RSUs, PSUs, ODSUs, DSUs and stock options that were not settled in cash in the current period. Cash administrative expenses are calculated as total administrative expenses, adjusting for share-based compensation expense in the period, plus any actual cash payments made under the Share Unit Award Incentive Plan, ODSU Plan or DSU Plan. Management believes cash administrative expense is a common benchmark used by investors when comparing companies to evaluate operating performance.

"Cash Administrative Expenses per BOE" represents cash administrative expenses on a BOE basis. Cash administrative expenses per BOE is calculated by dividing cash administrative expenses by the average daily production volumes for the period. Cash administrative expenses per BOE assists management and investors in evaluating operating performance on a comparable basis between periods.

Cash Administrative Expenses

The following table presents the computation of Cash Administrative Expenses:

	Three months ended September 30		Nine months ended September 30	
($ millions)	**2021**	**2020**	**2021**	**2020**
Total Administrative Expenses	**$ 4.7**	$ 4.1	**$ 22.2**	$ 13.7
Share-Based Compensation Expense	**(0.4)**	(0.6)	**(8.1)**	(0.9)
Cash Payments Made - Share Unit Award Incentive Plan	**-**	-	**0.7**	1.7
Cash Administrative Expenses	**$ 4.3**	$ 3.5	**$ 14.8**	$ 14.5

"Net Debt" represents long-term debt plus working capital deficiency (less positive working capital) and represents the liquidity of the Company including all classifications of debt as illustrated in the below table.

Net Debt

The following table presents the computation of Net Debt:

	Three months ended September 30		Nine months ended September 30	
($ millions)	**2021**	**2020**	**2021**	**2020**
Long-term debt	**$ 179.9**	$ -	**$ 179.9**	$ -
Working Capital Deficiency	**7.8**	66.2	**7.8**	66.2
Net Debt	**$ 187.7**	$ 66.2	**$ 187.7**	$ 66.2

Advisory

FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at October 25, 2021 and contains forward-looking statements that we believe allow readers to better understand our business and prospects. Forward-looking statements contained in this MD&A include our expectations with respect to the following:

- Commodity prices, including supply and demand factors relating to crude oil, natural gas and NGL, and specifically the effect of the COVID-19 pandemic on future royalty production volumes, revenues and cash flow;
- The potential magnitude of impacts from the COVID-19 pandemic, and the global economic recovery including the fact that many potential factors are unforeseeable and cannot be predicted or quantified with any degree of certainty;
- PrairieSky's business and growth strategy and anticipated sources of future income;
- PrairieSky's dividend policy and its intention to distribute the majority of cash flow as dividends and share repurchases and cancellations over time, which intention could change with little or no notice;
- PrairieSky's NCIB and specifically the volume and value of future repurchases under the NCIB based on current and forecast funds from operations;
- The manner in which PrairieSky manages collection and credit risk and its belief that the diversity of payors and products mitigate this risk;
- Possible revisions to accrued estimates based on receipt of actual results;
- The impact of compliance activities and recoveries, which vary quarterly;
- The impact of bonus consideration, which varies quarterly;
- The Company's estimate regarding third-party operators' approach to budgets and capital spending;
- The ability to mitigate the risks of fluctuations in commodity prices and production volumes, including but not limited to the impacts from a slowdown in exploration and development activity;
- Average production contributions from the Royalty Properties including the impact of exploration and development activity, acquisitions and/or declines;
- The impact of PrairieSky's share price on administrative expenses;
- The expectation that there will be no operating costs, capital costs, environmental liabilities, or abandonment and reclamation obligations associated with the development of the Royalty Properties;
- Expected future commitments and payments related thereto; and
- Changes to the legislative and regulatory frameworks, including changes to environmental legislation, in the jurisdictions in which the Company carries on a business.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions, industry conditions, the trajectory of the global COVID-19 pandemic, volatility of commodity prices, lack of pipeline capacity, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, regulation, changes in tax or other legislation, political and geopolitical instability, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. In addition, PrairieSky is subject to numerous risks and uncertainties in relation to acquisitions. These risks and uncertainties include risks relating to title to the assets acquired and the potential for disputes to arise with third parties, and limited ability to recover indemnification from such third parties under certain agreements. The foregoing and other risks are described in more detail in PrairieSky's Annual Information Form and in this MD&A under the heading "Risk Management".

With respect to forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things, the ability of the lessees and working interest owners on the Royalty Properties to maintain or increase production and reserves from these properties; the ability and willingness of the lessees and working interest owners on the Royalty Properties to comply with, and PrairieSky to enforce, lease terms and contractual provisions, as applicable, in order to receive payments; the ability of the lessees or working interest owners on the Royalty Properties to operate in a safe, efficient and effective manner; the timely receipt of any required regulatory approvals by lessees or working interest owners on the Royalty Properties; the willingness and financial capability of the lessees and working interest owners to continue to develop and invest additional capital in the Royalty Properties; the ability of the lessees and working interest owners on the Royalty Properties to obtain financing on acceptable terms to fund capital expenditures; field production rates, decline rates and the well performance and characteristics of the Royalty Properties; the ability to replace and increase crude oil, natural gas and NGL reserves and production associated with the Royalty Properties through third-party development and complementary acquisitions; the timing, cost and ability of third parties to access, maintain or expand necessary facilities and/or secure adequate product transportation and storage; the ability of the third-party operators on the Royalty Properties to successfully market their respective petroleum and natural gas products or, for royalty payments taken-in-kind by PrairieSky, the ability of PrairieSky or a third-party marketer to successfully market PrairieSky's in-kind petroleum and natural gas products; surface rights access being granted to third parties on PrairieSky's properties; the benefits of the seismic data anticipated to be used by PrairieSky and sub-licensed to lessees on the Royalty Properties; the level of costs and expenses to be incurred by PrairieSky, including with respect to interest, production and mineral taxes, administrative expenses and income taxes; the ability of PrairieSky to obtain and retain qualified staff and services in a timely and cost efficient manner; the absence of any material litigation or claims against or involving PrairieSky; the general stability of the economic and political environment and the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which PrairieSky has an interest in crude oil and natural gas properties; future crude oil, natural gas and NGL prices and currency exchange and interest rates; the effects of COVID-19 on global crude oil demand and pricing as well as local and global social and economic conditions; and PrairieSky's ability to execute the volume and/or value of purchases as described under the NCIB or future NCIBs, if approved by the TSX.

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

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

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

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

CONVERSIONS OF NATURAL GAS TO BOE

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (BOE). We use the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 BOE ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the BOE ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

CURRENCY AND REFERENCES TO PRAIRIESKY

All information included in this MD&A, and the interim condensed consolidated financial statements is shown on a Canadian dollar basis.

For convenience, references in this document to the "Company", "we", "us", "our", and "its" may, where applicable, refer only to PrairieSky.

ADDITIONAL INFORMATION

Additional information about PrairieSky, including the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2021, the 2020 audited annual consolidated financial statements and notes thereto, and PrairieSky's Annual Information Form, is available on SEDAR at www.sedar.com or PrairieSky's website at www.prairiesky.com.