PrairieSky Royalty Ltd.

Management's Discussion and Analysis

For the three months ended March 31, 2015

Management’s Discussion and Analysis

This Management’s Discussion and Analysis (“MD&A”) for PrairieSky Royalty Ltd. (“PrairieSky” or the “Company”) should be read with the unaudited Interim Condensed Financial Statements for the three months ended March 31, 2015 (“Interim Condensed Financial Statements”) and its audited financial statements and related notes as at December 31, 2014 and for the period from May 27, 2014 to December 31, 2014. This MD&A was prepared and is dated April 27, 2015.

The term “Q2 2014” refers to the period from May 27, 2014 to June 30, 2014.

The Interim Condensed Financial Statements and comparative information have been prepared in Canadian dollars and in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” 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 International Financial Reporting Standards (“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 Cash Flow, Netback, Funds from Operations, and Funds from Operations per Share basic and diluted. Further information can be found in the Non-GAAP Measures section of this MD&A, including a reconciliation of Cash from Operating Activities to Funds from Operations.

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 explanation.

Readers should also read the Advisory section located at the end of this MD&A, which provides information on Forward-Looking Statements, Natural Gas, Oil and Natural Gas Liquids (“NGL”) conversions and currency and references to PrairieSky.

FINANCIAL AND OPERATIONAL RESULTS

($ millions, unless otherwise noted)	Q2 2014	Q3 2014	Q4 2014	Q1 2015
FINANCIAL				
Revenues	$ 37.7	$ 91.4	$ 69.6	$ 54.4
Funds from Operations[1]	31.0	68.7	59.0	37.7
Per Share – basic and diluted[2]	0.66	0.53	0.44	0.25
Net Earnings and Comprehensive Income	24.4	61.2	50.7	16.8
Per Share – basic and diluted[2]	0.52	0.47	0.38	0.11
Dividends declared[3]	13.8	41.3	43.2	48.5
Per Share	0.1058	0.3174	0.3174	0.3250
Acquisitions including non-cash consideration	-	11.5	631.6	4.5
Working Capital	57.5	75.2	71.4	56.9
Shares Outstanding				
Weighted average - basic	47.1	130.0	132.5	149.3
Weighted average - diluted	47.3	130.1	132.6	149.3
OPERATIONAL				
Production Volumes				
Natural Gas (MMcf/d)	42.9	44.1	58.6	62.5
Crude Oil (bbls/d)	6,931	6,599	6,069	5,968
NGL (bbls/d)	1,582	1,493	1,444	1,666
Total (BOE/d)[4]	15,664	15,448	17,280	18,051
Realized Pricing				
Natural Gas ($/Mcf)	$ 4.51	$ 4.94	$ 3.68	$ 2.96
Crude Oil ($/bbl)	98.50	88.58	67.41	43.34
NGL ($/bbl)	63.55	70.94	36.70	24.26
Total ($/BOE)[4]	$ 62.35	$ 58.80	$ 39.24	$ 26.83
Operating Cash Flow Netback[1]	$ 55.42	$ 52.47	$ 33.69	$ 20.85
Funds from Operations per BOE[1]	$ 56.61	$ 48.37	$ 37.04	$ 23.20
Natural Gas Price Benchmarks				
AECO ($/Mcf)	$ 4.68	$ 4.22	$ 4.01	$ 2.95
Oil Price Benchmarks				
West Texas Intermediate (WTI) (US$/bbl)	102.98	97.44	73.39	48.40
Edmonton Light Sweet ($/bbl)	104.53	98.11	75.23	51.09

(1) A Non-GAAP measure, which is defined under the Non-GAAP Measures section in this MD&A.
(2) Net Earnings and Comprehensive Income and Funds from Operations per common share are calculated using the weighted average number of Common Shares outstanding.
(3) A dividend of $0.10833 per Common Share was declared on March 17, 2015. The dividend was paid on April 15, 2015 to shareholders of record as at March 31, 2015.
(4) See "Conversions of Natural Gas to BOE".

RESULTS OVERVIEW

HIGHLIGHTS

In the three month period ended March 31, 2015, PrairieSky reported:

- Funds from Operations of $37.7 million and Net Earnings of $16.8 million.
- Average production of 18,051 BOE/day consisting of crude oil production volumes of 5,968 bbls/d, average NGL production volumes of 1,666 bbls/d and average natural gas production volumes of 62.5 MMcf/d.
- Average realized crude oil prices of $43.34 per bbl, average realized NGL prices of $24.26 per bbl and average realized natural gas prices of $2.96 per Mcf.
- Cash and cash equivalents of $50.8 million and working capital of $56.9 million.

Significant developments for the Company during the three months ended March 31, 2015 included the following:

- The Company implemented a dividend reinvestment plan (the “DRIP”) which allows shareholders to direct cash dividends to be reinvested in additional Common Shares of the Company.
- Subsequent to the quarter, the Company completed a $21 million acquisition on April 10, 2015, which added 206,712 net acres of fee simple lands, a 75% seismic ownership interest in over 1,000 sq km of 3D seismic, 4,000 km of 2D seismic, in addition to 115 boe/day (93% natural gas) of royalty production.

BUSINESS OVERVIEW

PRAIRIESKY ROYALTY

PrairieSky’s asset base includes a geologically and geographically diverse portfolio of Fee Lands (as defined herein) predominately located in Alberta that encompasses approximately 5.3 million acres with petroleum and/or natural gas rights, an additional 1.2 million acres in coal only titles and approximately 3.4 million acres of GORR Lands (as defined here in) and 0.4 million of other acreage (collectively, the “Royalty Properties”).

The Royalty Properties are comprised of:(1) (i) fee simple mineral title in lands prospective for petroleum, natural gas, natural gas liquids and certain other mineral rights located predominantly in central and southern Alberta (the “Fee Lands”); (ii) lessor interests in and to leases that are currently issued in respect of certain Fee Lands (“Lessor Interests”); (iii) royalty interests, including overriding royalty interests, gross overriding royalty interests and production payments (“GORR Interests”) on lands (“GORR Lands”);

PrairieSky is focused on encouraging third parties to actively develop the Royalty Properties, while strategically seeking additional petroleum and natural gas royalty properties 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 or natural gas, rather, third party development of the Royalty Properties provides the Company with royalty revenues as petroleum and natural gas are produced from such properties. PrairieSky carries on business in the provinces of Alberta, Saskatchewan and British Columbia.

PrairieSky’s operations include royalty income earned through crude oil, NGL and natural gas produced on the Royalty Properties. The Company’s royalty revenues are derived from the Lessor Interests that are leased out by the Company and upon which lessees pay lessor royalties and GORR Interests on GORR Lands leased by third parties.

PrairieSky has royalty interests in more than 24,000 wells and received royalties from over 285 industry payors. The Company receives approximately 83% of its monthly revenue from 25 payors. Royalty rates for fee simple leases range from 3% to 40% and for GORR Interests range from 2% to 35%. Royalties are calculated on a fixed percentage or sliding scale formula. Some royalty agreements allow for the deduction of certain costs.

Petroleum and natural gas royalty structures are typically linked directly to production volumes, with certain royalty structures linked to production volumes and price. Therefore 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 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 and access to markets. The Company is able to mitigate some of these risks to the extent that there are a multitude of third parties actively exploring and developing the Royalty Properties and the production of natural gas, crude oil, and NGL is diversified.

As a royalty owner, PrairieSky does not bear many of the risks usually associated with the oil and natural gas business. The Company is not responsible for site restoration and abandonment costs. The Company does not bear the operational or financial risks of drilling, completing or operating wells and related infrastructure. These costs are the responsibility of the third parties conducting operations on the Royalty Properties. Virtually all of the capital expenditures made by PrairieSky are discretionary.

Costs incurred by the Company are primarily freehold mineral taxes and lease administration expenses. Lease administration expenses include such items as land title management, contract administration, technical evaluation, negotiations and compliance costs to secure both mineral rights and ensure accurate royalty revenue receipts.

Management's discussion and analysis for this reporting period focuses on the three months ended March 31, 2015.

PRAIRIESKY'S 2015 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 current economic environment is challenging and uncertain amidst low commodity prices, volatile financial markets and limited access to capital markets. Management continues to deploy their risk mitigating strategies including proactive monitoring of economic conditions, a constant and proactive compliance and collections program, a conservative approach to capital structure, paying close attention to administrative costs and a disciplined approach to acquisitions. PrairieSky has a strong balance sheet and continues to employ a conservative capital structure and monitor administrative expenses and capital expenditures. As at March 31, 2015, PrairieSky had available undrawn capacity under the Credit Facility as defined herein of $100 million and working capital of $56.9 million with $50.8 million in cash.

Management continues to monitor current commodity prices, currency exchange rates, industry activity levels and third party's guidance for anticipated capital expenditures during 2015 and beyond. Given PrairieSky has no operational control over capital expenditures on our lands, it is difficult to predict activity levels with a high degree of certainty.

PrairieSky has royalty interests in approximately 24,000 wells and collects royalty revenue from over 285 industry payors. We believe this diversity along with an active royalty compliance program assists in reducing our collection and credit risk. The Company has the ability to "take in kind" royalty volumes which would, in conjunction with the above, further assist in managing collection and credit risk.

PRAIRIESKY'S STRATEGY

The Company's objective is to generate significant cash flow and growth for shareholders through indirect oil and gas investment at a relatively low risk and low cost to the Company. The Company seeks to achieve this objective by (i) focusing on organic growth of the royalty revenue from the Fee Lands; (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); and (iii) selectively pursuing strategic business development opportunities that are relatively low risk to the Company and accretive to shareholders. The Company intends to pay out the majority of the cash flow as dividends to shareholders over time.

QUARTERLY TRENDS

Quarterly variances in revenues, net income, and funds from operations are primarily due to fluctuations in commodity prices and production volumes. Crude oil prices are generally determined by global supply and demand factors. Natural gas prices are influenced by many variables including weather conditions, industrial demand, and North American natural gas inventories. Changes in CAD-USD currency exchange rates impact our Canadian oil revenue realization relative to the benchmark WTI which is referenced in U.S. dollars.

The Company's financial results over the past quarter were influenced by the following significant changes:

- Oil prices continue to decline due to world supply concerns from a WTI monthly average in December 2014 of $59.50 US/bbl to a monthly average of $46.88 in March 2015.
- Gas prices have also decreased from the AECO monthly average in December 2014 of $4.16/mcf to a $2.73/mcf monthly average in March 2015.
- Offsetting these commodity price declines is the decrease in the Canadian dollar compared to the US dollar (1 CAD = USD) from $0.8620 on December 31, 2014 to $0.7885 on March 31, 2015.
- The WTI quarterly average has decreased from $73.39 US/bbl in the fourth quarter of 2014 to $48.40 US/bbl in the first quarter of 2015.
- The AECO quarterly average has decreased from $4.01/mcf in the fourth quarter of 2014 to $2.95/mcf in the first quarter of 2015.
- Average realized NGL price of $24.26 per BOE for the three month period ended March 31, 2015 has decreased 34% from $36.70 per BOE for the prior quarter.
- Average total realized price of $26.83 per BOE for the three month period ended March 31, 2015 has decreased 32% from $39.24 per BOE for the prior quarter.

PRODUCTION

PRODUCTION VOLUMES

(average daily)	Three months ended March 31, 2015	Three months ended December 31, 2014
Natural Gas (MMcf/d)	**62.5**	**58.6**
Crude Oil (bbls/d)	**5,968**	**6,069**
NGL (bbls/d)	**1,666**	**1,444**
Total Production (BOE/d)	**18,051**	**17,280**

For the three months ended March 31, 2015

Royalty revenues of $43.6 million were received from approximately 24,000 producing wells. Average crude oil production volumes were 5,968 bbls/d, average NGL production volumes were 1,666 bbls/d and average natural gas production volumes were 62.5 MMcf/d.

Crude oil production volumes for the first quarter have remained consistent over the fourth quarter of 2014 with a 2% decrease resulting from pricing on sliding scale royalties and natural declines. These decreases were offset by the full quarter impact of volumes from the fourth quarter acquisition of a private royalty business (“Private Co.”) that was acquired by PrairieSky on December 19, 2014.

Gas production volumes for the first quarter of 2015 increased 7% over the fourth quarter of 2014 due to increased production from new wells on stream, and the full quarter effect from the acquisition of Private Co. in late 2014.

NGL production volumes for the first quarter of 2015 increased 15% over the fourth quarter of 2014 due partly to the acquisition of Private Co. late in the fourth quarter and the effect of the declines from the prior period being lower than expected.

PrairieSky’s crude oil, NGL and natural gas production volumes are marketed with lessees’ production and therefore PrairieSky is exposed to commodity price volatility. The Company does not currently intend to enter into any commodity price hedges.

FINANCIAL RESULTS

REVENUES

Revenues by Product *($ millions)*	**For the three months ended March 31, 2015**	**For the three months ended December 31, 2014**
Crude Oil	**$ 23.3**	**$ 37.6**
Natural Gas	**16.7**	**19.9**
NGL	**3.6**	**4.9**
	43.6	**62.4**
Other Revenues *($ millions)*		
Lease rental income	**$ 4.0**	**$ 1.7**
Bonus consideration	**6.0**	**4.4**
Other income	**0.8**	**1.1**
	10.8	**7.2**
Total Revenues	**$ 54.4**	**$ 69.6**

Revenues by Royalty Classification *($ millions)*	**For the three months ended March 31, 2015**	**For the three months ended December 31, 2014**
Fee Lands	**$ 37.5**	**$ 59.1**
GORR Interests	**6.1**	**3.3**
	43.6	**62.4**
Other Revenues	**10.8**	**7.2**
Total Revenues	**$ 54.4**	**$ 69.6**

The Company’s operations include royalty revenues earned from crude oil, NGL and natural gas produced from the Royalty Properties. Royalty rates vary from approximately 2% to 40%. The average royalty rate for the first quarter was approximately 6.5%. In the first quarter, revenues from the Lessor Interests were $37.5 million or 86% of total royalty revenues and revenues from GORR Interests were $6.1 million or 14% of total royalty revenues. The increase in revenues generated from GORR Interests as a percentage of total royalty revenue is reflective of the impact of the acquisition of Private Co. in late December 2014.

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 cover a number of periods. The company follows the accrual method of accounting and, as a result, portions of compliance recoveries will have been recognized in prior periods in relation to when the production occurred. For the three-month period ended March 31, 2015, the Company collected $4.0 million in compliance recoveries.

Other revenues primarily consist of lease rental income from leases that are currently issued in respect of certain Fee Lands, lease bonus consideration and non-performance fees.

OPERATING RESULTS

	For the three months ended March 31, 2015		For the three months ended December 31, 2014	
	Operating Cash Flow[1] ($ millions)	Total Netback[1] ($/BOE)	Operating Cash Flow[1] ($ millions)	Total Netback[1] ($/BOE)
Revenues[2]	$ 43.6	$ 26.83	$ 62.4	$ 39.24
Administrative Expenses	(7.5)	(4.61)	(7.6)	(4.75)
Freehold Mineral Taxes	(2.2)	(1.37)	(1.3)	(0.80)
Operating Cash Flow/Netback	$ 33.9	$ 20.85	$ 53.5	$ 33.69

	Three months ended March 31, 2015	Three months ended December 31, 2014
Production Volumes (BOE/d)[3]	18,051	17,280

(1) Non-GAAP measure. See "Non-GAAP Measures" in this MD&A.
(2) Excludes the impact of Other Revenues.
(3) See "Conversions of Natural Gas to BOE"

For the three months ended March 31, 2015

Operating Cash Flow was $33.9 million and was impacted by:

- Average total realized price of $26.83 per BOE on production;
- Average total production volumes of 18,051 BOE/d;
- Royalty revenue of $43.6 million;
- Administrative expenses of $7.5 million; and
- Freehold mineral tax of $2.2 million.

Freehold mineral tax is levied on an annual basis on the value of oil and natural gas production from non-Crown lands. Throughout the period it is impacted by production estimates and prices. For the first quarter of 2015 freehold mineral taxes were an average of 5.0% of Royalty Revenue compared to 2.1% in the fourth quarter of 2014 as a result of the effect of final adjustments to the 2014 calculation received in the first quarter of 2015.

ADMINISTRATIVE

($ millions)	Three months ended March 31, 2015	Three months ended December 31, 2014
Salaries and Benefits	$ 4.3	$ 3.4
Share-Based Compensation	2.0	0.7
Office Expense	0.9	0.7
Public Company Expense	0.2	0.6
Information Technology and Other	0.1	0.6
Private Co. Transaction Costs	-	1.6
Total Administrative Expense	$ 7.5	$ 7.6

	For the three months ended March 31, 2015		For the three months ended December 31, 2014	
	($ millions)	($/BOE)(1)	($ millions)	($/BOE)(1)
Administrative – cash	$ 6.2	$ 3.82	$ 6.9	$ 4.34
Administrative – non-cash	1.3	0.79	0.7	0.44
Total Administrative Expense	$ 7.5	$ 4.61	$ 7.6	$ 4.78

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

Administrative expenses of $7.5 million for the quarter ended March 31, 2015 have remained consistent with the $7.6 million incurred for three month period ended December 31, 2014 as increases in compensation and share-based compensation costs were offset by a decrease in transaction costs. Of the increases in compensation and share-based compensation costs for the three months ended March 31, 2015, $1.1 million related to non-recurring retiring allowances.

Of the total share-based compensation for the quarter ended March 31, 2015, the Company expensed $0.6 million related to the Company's Deferred Share Unit ("DSU") plan. The majority of Directors elected to receive their annual Board of Directors ("Board") and Committee retainers and fees in the form of DSUs. The remaining $1.4 million share based compensation expense for the period ended March 31, 2015 relates to the Company's other employee share-based plans. The share-based cash-settled plans' expenses are impacted by the closing share price at March 31, 2015. The expense for all plans has increased in the current quarter as a result of the grant of 0.3 million stock options, 0.07 million performance share units, 0.1 million restricted share units and 0.02 million DSUs in the current quarter. These grants relate to the Company's 2015 annual compensation cycle for directors, officers and employees. For further explanation refer to Note 13 of the unaudited Condensed Interim Financial Statements for the three months ended March 31, 2015.

DEPLETION, DEPRECIATION AND AMORTIZATION ("DD&A")

($ millions, except per BOE amounts)	Three months ended March 31, 2015	Three months ended December 31, 2014
Depreciation, Depletion and Amortization	$ 23.9	$ 12.4
$/BOE	$ 14.71	$ 7.80

The Company calculates DD&A relative to total proved and probable reserves. DD&A was calculated based on production for the period ended March 31, 2015. DD&A is higher as a result of the depletable cost base increasing from the acquisition of Private Co. at fair market value in the fourth quarter of 2014.

FINANCE

($ millions)	Three months ended March 31, 2015	Three months ended December 31, 2014
Finance Income	$ (0.3)	$ (0.4)
Finance Expense	0.1	0.1
Net Finance Items	$ (0.2)	$ (0.3)

Finance income includes interest on funds on deposit, short term investments and a note receivable. Finance expense includes credit facility set-up and maintenance fees.

INCOME TAX

($ millions)	Three months ended March 31, 2015	Three months ended December 31, 2014
Current Tax Expense	**$ 7.8**	**$ 2.1**
Deferred Tax Recovery	**(4.0)**	**(4.2)**
Income Tax Expense (Recovery)	**$ 3.8**	**$ (2.1)**

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.

For the quarter ended March 31, 2015, the Company's effective tax rate was approximately 18.4%. Current tax expense in the fourth quarter of 2014 was lower than the current period due to the use of available pool deductions for fiscal 2014 and the acquisition of Private Co. The Company's effective tax rate differs from the Canadian statutory tax rate of 25% 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.

NET INCOME

Net income for the three months ended March 31, 2015 was $16.8 million, or $0.11 per share compared to $50.7 million or $0.38 per share for the three months ended December 31, 2014. The decrease in net income is a combined result of lower royalty income generated from the current commodity prices and higher depletion expense resulting from the acquisition of Private Co. late in 2014.

ACQUISITIONS

During the first quarter of 2015, the Company completed acquisitions with an aggregate cost of $4.5 million (three months ended December 31, 2014 - $631.6 million) comprised of royalty assets of $1.5 million, and exploration and evaluation assets of $3.0 million, of which $2.0 million was seismic.

Subsequent to the first quarter of 2015, the Company acquired royalty and seismic assets from a third party oil and gas producer effective April 1, 2015 for a cash purchase price of $21.0 million before adjustments. The transaction added 206,712 acres of fee simple mineral title, the assignment of a 75 percent ownership interest in 1,000 square km of 3D proprietary seismic and 4,000 km of 2D proprietary seismic, and 115 BOE/day of royalty production.

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	Three months ended March 31, 2015	Three months ended December 31, 2014
Net Cash From (Used In)		
Operating Activities	**$ 38.9**	**$ 76.7**
Investing Activities	**(3.0)**	**(4.8)**
Financing Activities	**(48.2)**	**(65.7)**
Increase(Decrease) in Cash and Cash Equivalents	**(12.3)**	**6.2**
Cash and Cash Equivalents, End of Period	**$ 50.8**	**$ 63.1**

OPERATING ACTIVITIES

Net cash from operating activities in the first quarter of 2015 was $38.9 million. For the first quarter of 2015, the net change in other assets and liabilities was an increase of $0.8 million and the net change in non-cash working capital was an increase of $1.2 million.

The Company had working capital of $56.9 million as at March 31, 2015. Accounts receivable and accrued revenues consist primarily of trade receivable and accrued revenues related to lease, royalty payments and freehold mineral taxes recovered from third parties. In the oil and gas industry, accounts receivable from industry partners are typically settled in the following month. 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 consist primarily of freehold mineral tax, share-based compensation and salary related accruals. At March 31, 2015, working capital included cash and cash equivalents of $50.8 million.

INVESTING ACTIVITIES

For the first quarter, cash used in investing activities was $3.0 million which resulted from the acquisition of royalty and exploration and evaluation assets.

FINANCING ACTIVITIES

For the first quarter, cash used in financing activities was $48.2 million which resulted from dividends paid to shareholders.

Credit Facility

PrairieSky has in place an unsecured $75 million extendible revolving credit facility (the “Revolving Facility”), with a permitted increase to $125 million (subject to certain conditions), and an unsecured $25 million extendible operating credit facility (the “Operating Facility”, and together with the Revolving Facility, the “Credit Facility”). The Credit Facility has a three-year term and, subject to certain requirements, may be extended. The Credit Facility is fully revolving up to maturity and may be extended or accelerated pursuant to the Credit Facility’s terms and conditions. Maintenance costs for the three months ended March 31, 2015 were $0.1 million. As at March 31, 2015, the Credit Facility continues to remain undrawn.

Outstanding Share Data

As at March 31, 2015 PrairieSky had 149.3 million Common Shares outstanding and 0.8 million outstanding stock options (December 31, 2014 - 0.5 million). As at April 27, 2015, Common Shares outstanding had increased to 149.4 million as a result of the DRIP shares issued.

Dividends and Dividend Policy

PrairieSky currently pays a monthly dividend to shareholders at the discretion of the Board. Dividends declared were $48.5 million or $0.3250 per share for the first quarter of 2015. On March 17, 2015, the Board declared a dividend of $0.10833 per Common Share paid on April 15, 2015 to shareholders of record as at March 31, 2015. On March 17, 2015, PrairieSky also announced the implementation of a DRIP. The DRIP will allow shareholders to direct cash dividends to be reinvested in additional Common Shares that will be issued at 99% of the volume weighted average price of the Common Shares during the last five trading days preceding the relevant dividend payment date or acquired at prevailing market rates.

The Board reviews and determines the dividend rate annually after considering expected commodity prices, foreign exchange rates, economic conditions, production volumes, DRIP participation levels, tax payable, and our capacity to fund operating and investing opportunities. The dividend rate is established with the intent of absorbing short-term market volatility over several months. It also recognizes the intention of maintaining a strong financial position to take advantage of business development opportunities and withstand periods of commodity price volatility.

Capital Structure

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 after consideration of the Company’s financial requirements for its business and future growth opportunities. As a royalty company, PrairieSky does not have capital commitments, which enhances its financial flexibility.

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

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

COMMITMENTS

CONTRACTUAL COMMITMENTS

($ millions)	Expected Future Payments						
(undiscounted)	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**	**Total**
Office lease commitments	**$ 1.6**	**$ 1.7**	**$ 1.4**	**$ 1.4**	**$ 1.3**	**$ 5.8**	**$ 13.2**

The Company had two royalty acquisition agreements in place with unrelated parties at March 31, 2015. The agreements expire on December 31, 2016 and August 1, 2017 and result in a remaining commitment of $0.8 million and $3.8 million, respectively.

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 risks.

Commodity Price Risk

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

Interest Rate Risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company has minimal interest rate risk as it has not drawn on its Credit Facility.

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 prices obtained by the royalty payor and that unwarranted or excessive deductions are not being taken.

A substantial portion of the Company's accounts receivable are from leases and other agreements with oil and 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 oil and gas rights to the Company. In addition, the Company has the ability to take its royalty share of production in-kind, thereby further mitigating credit risk.

As at March 31, 2015 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 revenues is the total carrying value. For the period presented, the Company does not have an allowance for doubtful accounts nor provides for any doubtful accounts as there is negligible history of default.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting a demand to fund its financial liabilities as they come due. The Company has access to funding alternatives through the Credit Facility. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due. At March 31, 2015 the Company had working capital of $56.9 million including cash of $50.8 million.

The Company's sources of liquidity include cash and cash equivalents, working capital funds and Operating and Revolving Facilities. The primary use of funds are administrative expenses, cash taxes, dividends, and freehold mineral taxes.

The Company's royalty revenues provide significant liquidity with high operating netbacks and discretionary capital commitments.

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 23, 2015 which is available at PrairieSky's SEDAR profile at www.sedar.com.

ACCOUNTING JUDGMENTS AND ESTIMATES

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 2014 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

In compliance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), the Company has completed the design of internal controls.

The Board, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee meets at least annually with the Company's external auditors to review accounting, internal control, financial reporting, and audit matters.

Due to inherent limitations, internal controls over financial reporting ("ICFR") may not prevent or detect misstatements, and even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

DISCLOSURE CONTROLS AND PROCEDURES

The CEO and COO have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") as defined in NI 52-109 to provide reasonable assurance that: (i) material information relating to the Company is made known to the CEO and the COO by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. The COO has assumed the responsibilities of the CFO with respect to certification during this interim period.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and COO are responsible for establishing and maintaining ICFR. They have designed, or caused to be designed under their supervision, ICFR as defined in NI 52-109, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company has implemented changes in internal controls over financial reporting since December 31, 2014 related to the previous scope limitation on the acquisition of Private Co. The Company has ensured that its processes and controls now cover all aspects of the acquired business and no limitation is required or reported at March 31, 2015.

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 oil and 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 Cash Flow, Netback, Funds from Operations, and Funds from Operations per Common Share – Basic and Diluted. Management's use of these measures is discussed further below.

"Operating Cash Flow" represents the cash margin for product sold. Operating Cash Flow is calculated as revenues excluding other revenues, less freehold mineral taxes and administrative expenses. Operating Cash Flow provides a consistent measure of the cash generating performance of the Royalty Properties to assess the comparability of the underlying performance between years.

"Netback" represents the cash margin for product sold on a BOE basis. Netback is calculated using Operating Cash Flow, excluding other revenues, on a per BOE basis. Netback is used to assess the ability to provide cash generating performance per unit of product sold. Netback measures are commonly used in the oil and gas industry to assess performance comparability. Refer to the Operating Results table in this MD&A document for the summary of this reporting period's netback calculations.

FUNDS FROM OPERATIONS

Funds from Operations is defined as cash from operating activities, before 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 operations. This is considered a measure of operating performance as it demonstrates the Company's ability to fund capital expenditures, and meet the intention of the Company to distribute cash flow on an ongoing basis to shareholders as dividends. Such a measure provides a useful indicator of the Company's operations on an ongoing basis by eliminating certain non-cash charges. Below is a reconciliation of Funds from Operations to Cash From (Used in) Operating Activities, which is the most comparable IFRS measure.

($ millions)	For the three months ended March 31, 2015	$ per BOE
Cash From Operating Activities	**$ 38.9**	**$ 23.94**
Add back (deduct):		
Net Change in Non-cash Working Capital	**(1.2)**	**(0.74)**
Funds From Operations	**$ 37.7**	**$ 23.20**

FUNDS FROM OPERATIONS PER COMMON SHARE CALCULATIONS – BASIC AND DILUTED

The following table presents the computation of Funds from Operations per Common Share:

($ millions, except per share data)	Three months ended March 31, 2015	Three months ended December 31, 2014
Funds from Operations	$ 37.7	$ 59.0
Number of common shares:		
Common shares outstanding – basic	149.3	132.5
Effect of dilutive securities	-	0.1
Common shares outstanding – diluted	149.3	132.6
Funds from Operations per Common Share		
Basic	$ 0.25	$ 0.44
Diluted	$ 0.25	$ 0.44

ADVISORY

FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at March 31, 2015, 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 natural gas liquids;
- expected future commitments and payments related thereto;
- PrairieSky's business and growth strategy and anticipated sources of future income;
- the manner in which PrairieSky manages collection and credit risk and its belief that the diversity of payors mitigate this risk.
- possible revisions to accrued estimates based on receipt of actual results;
- expected impacts of accounting standards, including those announced but not yet adopted;
- the expectation that there will be no operating costs, capital costs, environmental liabilities, or abandonment and reclamation obligations associated with development of the Royalty Properties**;**
- estimated general and administrative expenses;
- the ability to mitigate the risks of fluctuations in commodity prices and production volumes; and
- average production and contribution from the Royalty Properties.

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, volatility of commodity prices, lack of pipeline capacity, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, 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 the acquisitions. These risks and uncertainties include risks relating to the potential for disputes to arise with Encana, and limited ability to recover indemnification from Encana 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 acquisitions and third party development; 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 operators of the properties in which PrairieSky has a royalty interest in, to successfully market their respective petroleum and natural gas products or, for royalty payments taken-in-kind by PrairieSky, if any, 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 PrairieSky's properties; the level of costs and expenses to be incurred by PrairieSky, including with respect to interest, general and administrative expenses and income tax expenses; 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 oil and natural gas properties; and future crude oil, natural gas and NGL prices and currency, exchange and interest rates.

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 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 income, 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 Financial Statements is shown on a Canadian dollar basis. All proceeds from divestitures are provided on a before-tax 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 2014 audited annual 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.