



# PrairieSky Royalty Ltd.

## Management's Discussion and Analysis

For the three and six months ended June 30, 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 and six months ended June 30, 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 July 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/day"); barrel of oil equivalent ("BOE") per day ("BOE/day"); thousand cubic feet ("Mcf"); and million cubic feet ("MMcf") per day ("MMcf/day"). 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

<i>(\$ millions, unless otherwise noted)</i>	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014 <sup>(5)</sup>	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014 <sup>(5)</sup>
<b>FINANCIAL</b>				
Revenues	\$ 71.8	\$ 37.7	\$ 126.2	\$ 37.7
<b>Funds from Operations<sup>(1)</sup></b>	<b>43.6</b>	<b>31.0</b>	<b>81.3</b>	<b>31.0</b>
Per Share – basic <sup>(2)</sup>	0.29	0.66	0.54	1.31
Per Share – diluted <sup>(2)</sup>	0.29	0.66	0.54	1.30
<b>Net Earnings and Comprehensive Income</b>	<b>24.1</b>	<b>24.4</b>	<b>40.9</b>	<b>24.4</b>
Per Share – basic <sup>(2)</sup>	0.16	0.52	0.27	1.03
Per Share – diluted <sup>(2)</sup>	0.16	0.52	0.27	1.03
Dividends declared <sup>(3)</sup>	48.6	13.8	97.1	13.8
Per Share	0.3250	0.1058	0.6500	0.1058
Acquisitions including non-cash consideration	52.2	-	56.7	-
Working Capital	22.6	57.5	22.6	57.5
<b>Shares Outstanding</b>				
Shares Outstanding at period end	149.6	130.0	149.6	130.0
Weighted average - basic	149.5	47.1	149.4	23.7
Weighted average - diluted	150.0	47.3	149.8	23.8
<b>OPERATIONAL</b>				
<b>Production Volumes</b>				
Natural Gas (MMcf/d)	59.5	42.9	61.0	42.9
Crude Oil (bbls/d)	5,751	6,931	5,859	6,931
NGL (bbls/d)	1,537	1,582	1,601	1,582
Total (BOE/d) <sup>(4)</sup>	17,205	15,664	17,627	15,664
<b>Realized Pricing</b>				
Natural Gas (\$/Mcf)	\$ 2.53	\$ 4.51	\$ 2.75	\$ 4.51
Crude Oil (\$/bbl)	53.54	98.50	48.38	98.50
NGL (\$/bbl)	20.31	63.55	22.35	63.55
Total (\$/BOE) <sup>(4)</sup>	\$ 28.42	\$ 62.35	\$ 27.61	\$ 62.35
<b>Operating Cash Flow Netback<sup>(1)</sup></b>	<b>\$ 21.84</b>	<b>\$ 55.42</b>	<b>\$ 21.34</b>	<b>\$ 55.42</b>
<b>Funds from Operations per BOE<sup>(1)</sup></b>	<b>\$ 27.85</b>	<b>\$ 56.61</b>	<b>\$ 25.48</b>	<b>\$ 56.61</b>
<b>Natural Gas Price Benchmarks</b>				
AECO (\$/Mcf)	\$ 2.67	\$ 4.68	\$ 2.81	\$ 4.68
<b>Foreign Exchange Rate (US\$/CAD\$)</b>	<b>0.8132</b>	<b>0.9229</b>	<b>0.8095</b>	<b>0.9229</b>
<b>Oil Price Benchmarks</b>				
West Texas Intermediate (WTI) (US\$/bbl)	57.41	104.67	52.91	104.67
Edmonton Light Sweet (\$/bbl)	66.69	106.41	58.89	106.41

(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 June 16, 2015. The dividend was paid on July 15, 2015 to shareholders of record as at June 30, 2015.

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

(5) The Company was incorporated in November 2013 and commenced operations on May 27, 2014. The term "YTD 2014" is the period from January 1, 2014 to June 30, 2014. Basic and diluted weighted average common shares are based on the three and six month periods ended June 30, 2014.

## RESULTS OVERVIEW

### HIGHLIGHTS

During the three month period ended June 30, 2015 ("Q2 2015"), PrairieSky reported:

- Funds from operations of \$43.6 million and net earnings of \$24.1 million, increases of 16% and 43%, respectively over Q1 2015.
- Average production of 17,205 BOE per day consisting of crude oil production volumes of 5,751 bbls per day, average NGL production volumes of 1,537 bbls per day and average natural gas production volumes of 59.5 MMcf per day. Average daily production increased 10% over the 35 day period from May 27, 2014 to June 30, 2014 ("Q2 2014") due to acquisitions and new drilling on PrairieSky lands.
- Revenues totaled \$71.8 million, up 32% from Q1 2015 due to \$24.8 million of bonus consideration.
- Cash and cash equivalents of \$2.2 million and positive working capital of \$22.6 million, a decrease from March 31, 2015 balances of \$50.8 million and \$56.9 million, respectively, primarily due to capital expenditures associated with acquisition activities.
- Capital asset acquisitions of \$38.0 funded from cash on hand.

During the six month period ended June 30, 2015 ("YTD 2015"), PrairieSky reported:

- Funds from operations of \$81.3 million and net earnings of \$40.9 million.
- Average production of 17,627 BOE per day consisting of crude oil production volumes of 5,859 bbls per day, average NGL production volumes of 1,601 bbls per day and average natural gas production volumes of 61.0 MMcf per day.
- Revenue totaled \$126.2 million, consisting of \$88.1 million of product revenue, \$6.3 million of lease rental income, \$30.8 million of bonus consideration and \$1.0 million of other income.
- Capital asset acquisitions of \$41.0 million funded from cash on hand.

Significant developments for the Company during the three months ended June 30, 2015 included the following:

- On April 10, 2015, the Company closed the asset acquisition of 206,712 net acres of fee mineral title lands, including 115 BOE per day of net royalty production (93% natural gas), a 75% seismic ownership interest in over 1,000 square kms of 3D seismic and 4,000 kms of 2D seismic. The acquired fee lands are complementary to the Company's existing land position in central Alberta. Total consideration for the asset acquisition was \$21 million before closing adjustments. The effective date of this transaction was April 1, 2015.
- On April 30, 2015, the Company entered into an agreement with an existing third party lessee whereby the Company provided a lease extension and a revised royalty structure on existing leases, and issued new leases on additional lands, in exchange for incremental well commitments over the remainder of the term as well as non-cash bonus consideration of \$14.9 million. Bonus consideration in respect of the transaction was a 4% gross overriding royalty interest on an existing producing asset with an effective date of January 1, 2015.
- On June 11, 2015, the Company closed the asset acquisition of certain gross overriding royalty interests covering 6,400 acres of land including approximately 60 BOE per day of net royalty production (59% natural gas). Total consideration for the transaction was \$9 million before closing adjustments. The effective date of this transaction was May 1, 2015.
- On June 12, 2015, the Company closed the asset acquisition of a 5% gross overriding royalty interest in producing wells in the Wayne area of southeast Alberta, representing approximately 89 BOE per day of net royalty production (40% natural gas). Total consideration for the transaction was \$6.5 million before closing adjustments. The effective date of this transaction was April 1, 2015.

- On June 29, 2015, the Company entered into a lease issuance and drilling commitment agreement with a well-capitalized third party oil and natural gas exploration and production company covering 108 sections in the Wheatland area of southern Alberta. The total bonus consideration associated with this transaction was \$8.8 million cash.
- Subsequent to the quarter on July 7, 2015, the Company completed its previously announced bought deal prospectus offering of common shares. Pursuant to the offering, the Company issued 6,336,000 common shares, including 576,000 common shares issued pursuant to the exercise in full of the over-allotment option granted to the underwriters, at a price of \$31.25 per common share, for aggregate gross proceeds of \$198 million and net proceeds, after underwriter fees, of approximately \$190 million.

## 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 5.5 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 herein) and 0.4 million of other acreage (collectively, the "Royalty Properties").

The Royalty Properties are comprised of: (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, and gross overriding royalty interests ("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: (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 leased by third parties.

PrairieSky has royalty interests in more than 24,000 wells and receives royalties from over 285 industry payors. The Company receives approximately 80% of its monthly revenue from 25 payors. Royalties are calculated on a fixed percentage or sliding scale formula. The average royalty rate YTD 2015 was 6.7%. 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. 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 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 and geopolitical risk. 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 and six months ended June 30, 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, limited access to capital markets, increasing corporate tax rates and potential changes to legislative and regulatory frameworks in the jurisdictions in which the Company carried on business, including but not limited to potential changes to the royalty framework in Alberta. 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 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 June 30, 2015, PrairieSky had available undrawn capacity under the Credit Facility, as defined herein, of \$100 million and working capital of \$22.6 million with \$2.2 million in cash. On July 7, 2015, the Company received approximately \$190 million in net proceeds from the issuance of 6,336,000 common shares.

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

PrairieSky has royalty interests in approximately 24,000 wells and receives royalty revenue from over 285 industry payors. This diversity, along with an active royalty compliance program, assists in reducing 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 cash flow as dividends to shareholders over time.

## **SUMMARY OF QUARTERLY RESULTS AND 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 USD-CAD currency exchange rate impact the Company's oil revenue realization relative to the benchmark WTI, which is referenced in U.S. dollars, with the weaker Canadian dollar in 2015 positively impacting oil revenues.

The Company's financial results over the past quarters were influenced by the following downward trends in commodity pricing:

- The WTI quarterly average of US\$57.41 per bbl in Q2 2015 has decreased 45% from US\$104.67 per bbl in Q2 2014.
- The AECO quarterly average of \$2.67 per mcf in Q2 2015 has decreased 43% from \$4.68 per mcf in Q2 2014.
- Average realized NGL price of \$20.31 per bbl in Q2 2015 has decreased 68% from \$63.55 per bbl in Q2 2014.
- Average total realized price of \$28.42 per BOE in Q2 2015 has decreased 54% from \$62.35 per BOE in Q2 2014.

Net earnings and comprehensive income in Q1 2015 and Q2 2015 were also impacted by higher depletion expense as a result of the acquisition of a private royalty business ("Private Co.") late in 2014.

Revenues in Q2 2015 have increased from Q1 2015 as a result of \$24.8 million in bonus consideration received during the period.

Q2 2014 is the 35 day period from May 27, 2014 to June 30, 2014, as such revenue, funds from operations and net income for the period are not representative of a full reporting quarter.

<i>(\$ millions, unless otherwise noted)</i>	<b>Q2 2014</b>	<b>Q3 2014</b>	<b>Q4 2014</b>	<b>Q1 2015</b>	<b>Q2 2015</b>
<b>FINANCIAL</b>					
Revenues	\$ 37.7	\$ 91.4	\$ 69.6	\$ 54.4	\$ 71.8
Funds from Operations <sup>(1)</sup>	31.0	68.7	59.0	37.7	43.6
Per Share – basic and diluted <sup>(2)</sup>	0.66	0.53	0.44	0.25	0.29
Net Earnings and Comprehensive Income	24.4	61.2	50.7	16.8	24.1
Per Share – basic and diluted <sup>(2)</sup>	0.52	0.47	0.38	0.11	0.16
Dividends declared <sup>(3)</sup>	13.8	41.3	43.2	48.5	48.6
Per Share	0.1058	0.3174	0.3174	0.3250	0.3250
Working Capital	57.5	75.2	71.4	56.9	22.6
<b>OPERATIONAL</b>					
<b>Production Volumes</b>					
Natural Gas (MMcf/day)	42.9	44.1	58.6	62.5	59.5
Crude Oil (bbls/day)	6,931	6,599	6,069	5,968	5,751
NGL (bbls/day)	1,582	1,493	1,444	1,666	1,537
<b>Total (BOE/day)</b>	<b>15,664</b>	<b>15,448</b>	<b>17,280</b>	<b>18,051</b>	<b>17,205</b>

(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 June 16, 2015. The dividend was paid on July 15, 2015 to shareholders of record as at June 30, 2015.

## PRODUCTION

### PRODUCTION VOLUMES

(average daily)	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014
Natural Gas (MMcf/day)	59.5	42.9	61.0	42.9
Crude Oil (bbls/day)	5,751	6,931	5,859	6,931
NGL (bbls/day)	1,537	1,582	1,601	1,582
Total Production (BOE/day)	17,205	15,664	17,627	15,664

PrairieSky's average daily production for both Q2 2015 and YTD 2015 was 33% oil, 9% NGLs and 58% natural gas as compared to the same periods in 2014 when the production split was 44% oil, 10% NGLs and 46% natural gas. There is a lag between the timing of production and when PrairieSky receives its royalty interest production and revenue from operators. Due to this lag, PrairieSky's production volumes and revenue include both positive and negative adjustments related to prior periods.

#### For the three months ended June 30, 2015

Crude oil production volumes for Q2 2015 of 5,751 bbls per day were 17% lower than the 6,931 bbls per day reported in Q2 2014 due to natural declines and pricing on sliding scale royalties outweighing the impact of new incremental drilling and acquired production. Crude oil production volumes have also been impacted by negative volume adjustments to prior periods.

Gas production volumes for Q2 2015 of 59.5 mmcf per day were 39% higher than the 42.9 mmcf per day reported in Q2 2014 due to incremental new drilling and the acquired production volumes from Private Co. in late 2014 and other minor acquisitions in the current year. Natural gas production volumes have also been impacted by positive volume adjustments for prior periods.

NGL production volumes for Q2 2015 of 1,537 bbls per day have remained largely consistent with the 1,582 bbls per day reported in Q2 2014.

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

#### For the six months ended June 30, 2015

YTD 2015 crude oil production volumes of 5,859 bbls per day were 15% lower than the 6,931 bbls per day reported in YTD 2014 due to natural declines and pricing on sliding scale royalties outweighing the impact of new incremental drilling and acquired production. Crude oil production volumes have also been impacted by negative volume adjustments to prior periods.

YTD 2015 gas production volumes of 61.0 mmcf per day were 42% higher than the 42.9 mmcf per day reported in YTD 2014 due to 2015 incremental and acquired volumes. Natural gas production volumes have also been impacted by positive volume adjustments for prior periods.

YTD 2015 NGL production volumes of 1,601 bbls per day were consistent with the 1,582 bbls per day reported in YTD 2014.

PrairieSky's compliance department continually reviews leasing agreements and royalty calculations. Compliance adjustments are not recorded in the financial statements until collection is certain.



## FINANCIAL RESULTS

### REVENUES

Revenues by Product (\$ millions)	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014
Crude Oil	\$ 28.0	\$ 23.9	\$ 51.3	\$ 23.9
Natural Gas	13.6	6.8	30.3	6.8
NGL	2.9	3.5	6.5	3.5
	44.5	34.2	88.1	34.2
Other Revenues (\$ millions)				
Lease Rental Income	\$ 2.3	\$ 3.0	\$ 6.3	\$ 3.0
Bonus Consideration	24.8	0.5	30.8	0.5
Other Income	0.2	-	1.0	-
	27.3	3.5	38.1	3.5
Total Revenues	\$ 71.8	\$ 37.7	\$ 126.2	\$ 37.7

Revenues by Royalty Classification (\$ millions)	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014
Fee Lands	\$ 36.7	\$ 33.6	\$ 74.2	\$ 33.6
GORR Interests	7.8	0.6	13.9	0.6
	44.5	34.2	88.1	34.2
Other Revenues	27.3	3.5	38.1	3.5
Total Revenues	\$ 71.8	\$ 37.7	\$ 126.2	\$ 37.7

The Company's operations include royalty revenues earned from crude oil, NGL and natural gas produced from the Royalty Properties. The average royalty rate for Q2 2015 and YTD 2015 was approximately 6.8% and 6.7%, respectively, compared to 7.0% in the prior year. During the three and six months ended June 30, 2015, royalty revenues were \$44.5 million and \$88.1 million respectively, compared to \$34.2 million in 2014. The increase of 30% for the current quarter is a result of only 35 days of operations in the 2014 comparative period offset by reduced realized product prices.

In Q2 2015, revenues from the Lessor Interests were \$36.7 million or 82% of total royalty revenues and revenues from GORR Interests were \$7.8 million or 18% of total royalty revenues. In the comparative period, less than 2% of royalty revenues were generated from GORR Interests. 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.

In Q2 2015, the Company averaged realized crude oil prices of \$53.54 per bbl, NGL prices of \$20.31 per bbl and natural gas prices of \$2.53 per Mcf. Prices for all products were down significantly from Q2 2014 when the Company averaged realized crude prices of \$98.50 per bbl, NGL prices of \$63.55 per bbl and \$4.51 per Mcf for natural gas. Realized pricing for Q2 2015 trended downward with benchmark pricing for all products as compared to Q2 2014. YTD 2015, the Company averaged realized crude oil prices of \$48.38 per bbl, NGL prices of \$22.35 per bbl and natural gas prices of \$2.75 per Mcf. Commodity prices remained low throughout the first half of 2015 due to global supply and demand imbalances.

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 and six month periods ended June 30, 2015, the Company collected \$2.1 million and \$6.1 million, respectively, in compliance recoveries.

Other revenues consist primarily of lease rental income from leases that are currently issued in respect of certain Fee Lands, lease bonus consideration and non-performance fees. Bonus consideration revenue for Q2 2015 and YTD 2015 was \$24.8 million (Q2 2014 - \$0.5 million) and \$30.8 million (YTD 2014 - \$0.5 million), respectively. Both the amount and timing of bonus consideration revenue can vary significantly as it relates to the unique circumstances of each transaction.

## OPERATING RESULTS

	For the three months ended June 30, 2015		For the period from May 27, 2014 to June 30, 2014	
	Operating Cash Flow <sup>(1)</sup> (\$ millions)	Total Netback <sup>(1)</sup> (\$/BOE)	Operating Cash Flow <sup>(1)</sup> (\$ millions)	Total Netback <sup>(1)</sup> (\$/BOE)
Revenues <sup>(2)</sup>	\$ 44.5	\$ 28.42	\$ 34.2	\$ 62.35
Administrative Expenses	(7.9)	(5.05)	(2.7)	(4.86)
Freehold Mineral Taxes	(2.4)	(1.53)	(1.1)	(2.07)
Operating Cash Flow/Netback	\$ 34.2	\$ 21.84	\$ 30.4	\$ 55.42

	For the six months ended June 30, 2015		For the period from May 27, 2014 to June 30, 2014	
	Operating Cash Flow <sup>(1)</sup> (\$ millions)	Total Netback <sup>(1)</sup> (\$/BOE)	Operating Cash Flow <sup>(1)</sup> (\$ millions)	Total Netback <sup>(1)</sup> (\$/BOE)
Revenues <sup>(2)</sup>	\$ 88.1	\$ 27.61	\$ 34.2	\$ 62.35
Administrative Expenses	(15.4)	(4.83)	(2.7)	(4.86)
Freehold Mineral Taxes	(4.6)	(1.44)	(1.1)	(2.07)
Operating Cash Flow/Netback	\$ 68.1	\$ 21.34	\$ 30.4	\$ 55.42

	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014
Production Volumes (BOE/d) <sup>(3)</sup>	17,205	15,664	17,627	15,664

(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 June 30, 2015

Operating Cash Flow was \$34.2 million and was impacted by:

- Average total realized price of \$28.42 per BOE on production;
- Average total production volumes of 17,205 BOE per day;
- Royalty revenue of \$44.5 million;
- Administrative expenses of \$7.9 million (cash administrative expenses of \$5.8 million); and
- Freehold mineral tax of \$2.4 million.

## For the six months ended June 30, 2015

Operating Cash Flow was \$68.1 million and was impacted by:

- Average total realized price of \$27.61 per BOE on production;
- Average total production volumes of 17,627 BOE per day;
- Royalty revenue of \$88.1 million;
- Administrative expenses of \$15.4 million (cash administrative expenses of \$12.0 million); and
- Freehold mineral tax of \$4.6 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 Q2 2015 freehold mineral taxes and Saskatchewan acreage tax were an average of 5.4% of Royalty Revenue compared to 3.2% in Q2 2014. Amounts recorded in 2015 have been adjusted to reflect 2014 actuals.

## ADMINISTRATIVE

(\$ millions)	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014
Salaries and Benefits	\$ 3.6	\$ 1.1	\$ 7.9	\$ 1.1
Share-Based Compensation	2.1	1.2	4.1	1.2
Office Expense	1.0	0.3	1.9	0.3
Public Company Expense	0.6	0.1	0.8	0.1
Information Technology and Other	0.6	-	0.7	-
<b>Total Administrative Expense</b>	<b>\$ 7.9</b>	<b>\$ 2.7</b>	<b>\$ 15.4</b>	<b>\$ 2.7</b>

	For the three months ended June 30, 2015		For the period from May 27, 2014 to June 30, 2014	
	(\$ millions)	(\$/BOE) <sup>(1)</sup>	(\$ millions)	(\$/BOE) <sup>(1)</sup>
Administrative – cash	\$ 5.8	\$ 3.70	\$ 1.5	\$ 2.74
Administrative – non-cash	2.1	1.34	1.2	2.18
<b>Total Administrative Expense</b>	<b>\$ 7.9</b>	<b>\$ 5.04</b>	<b>\$ 2.7</b>	<b>\$ 4.92</b>

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

	For the six months ended June 30, 2015		For the period from May 27, 2014 to June 30, 2014	
	(\$ millions)	(\$/BOE) <sup>(1)</sup>	(\$ millions)	(\$/BOE) <sup>(1)</sup>
Administrative – cash	\$ 12.0	\$ 3.76	\$ 1.5	\$ 2.74
Administrative – non-cash	3.4	1.07	1.2	2.18
<b>Total Administrative Expense</b>	<b>\$ 15.4</b>	<b>\$ 4.83</b>	<b>\$ 2.7</b>	<b>\$ 4.92</b>

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

Administrative expenses of \$5.04 per BOE in Q2 2015 and \$4.83 per BOE YTD 2015 were in line with Q2 2014 administrative expenses of \$4.92 per BOE. Administrative expenses in Q2 2015 and YTD 2015 include increased non-cash administrative expenses related to share-based compensation plans. These expenses are impacted by the closing share price at period end and as such, are subject to variability. Of the increases in compensation and share-based compensation costs for the Q2 2015 and YTD 2015 periods, \$0.3 million and \$1.4 million relate to non-recurring severances and retiring allowances, respectively.

Of the total share-based compensation for Q2 2015, \$0.5 million (2014 - \$0.1 million) related to stock option plan and \$1.6 million (2014 - \$0.2 million) related to the RSU and PSU plans. The Company had nil expense

(2014 - \$0.9 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.

Of the total share-based compensation for YTD 2015, \$0.6 million (2014 - \$0.9 million) related to the outstanding DSU plan and \$0.8 million (2014 - \$0.1 million) related to the stock option plan. The remaining \$2.7 million (2014 - \$0.2 million) share-based compensation expense for YTD 2015 related to the RSU and PSU plans.

Share-based compensation expense increased in Q2 2015 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 first quarter of 2015. These grants relate to the Company's 2015 annual compensation cycle for directors, officers and employees. For further explanation refer to Note 12 of the unaudited condensed interim financial statements for the three and six months ended June 30, 2015.

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

<i>(\$ millions, except per BOE amounts)</i>	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014
Depletion, Depreciation and Amortization	\$ 24.1	\$ 3.7	\$ 48.0	\$ 3.7
\$/BOE	\$ 15.39	\$ 6.75	\$ 15.04	\$ 6.75

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 are depreciated on a straight line basis. DD&A per BOE is higher for both Q2 2015 and YTD 2015 due to the increase in royalty assets primarily due to the acquisition of Private Co. in December 2014.

### FINANCE

<i>(\$ millions)</i>	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014
Finance Income	\$ (0.2)	\$ (0.1)	\$ (0.5)	\$ (0.1)
Finance Expense	0.1	0.2	0.2	0.2
Net Finance Items	\$ (0.1)	\$ 0.1	\$ (0.3)	\$ 0.1

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

### INCOME TAX

<i>(\$ millions)</i>	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014
Current Tax Expense	\$ 6.2	\$ 4.2	\$ 14.0	\$ 4.2
Deferred Tax Expense	7.1	1.5	3.1	1.5
Income Tax Expense	\$ 13.3	\$ 5.7	\$ 17.1	\$ 5.7

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 six months ended June 30, 2015, the Company's effective tax rate was approximately 29.5% (2014 – 18.9%). The Company's effective tax rate differs from the Canadian statutory tax rate of 26% 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, both the current tax expense and deferred tax expense for the Q2 2015 and YTD 2015 periods were negatively impacted by the recently announced Alberta provincial corporate income tax rate increases from 10% to 12%.

## NET EARNINGS

Net earnings for the three and six month period ended June 30, 2015 were \$24.1 million (\$0.16 per share, basic and diluted) and \$40.9 million (\$0.27 per share, basic and diluted), respectively. Net earnings for the 35 day period ended June 30, 2014 was \$24.4 million (\$0.52 per share, basic and diluted and \$1.03 per share, basic and diluted). The decrease in net earnings in the current quarter is due to higher depletion, administrative and tax expenses in the quarter, offset by higher revenues from a full quarter of operations and significant bonus consideration compared to the 35 day period in the prior year.

## ACQUISITIONS

During Q2 2015, the Company completed asset acquisitions with an aggregate cost of \$52.2 million, comprised of royalty assets of \$33.4 million and exploration and evaluation assets of \$18.8 million. Q2 2015 acquisitions included a non-monetary transaction whereby royalty assets were exchanged for new leases which generated bonus consideration of \$14.9 million. Cash purchase price adjustments of \$0.7 million were received from the effective date of January 1, 2015 to the closing date. The details of these asset acquisitions can be found in the ("Highlights") section of this MD&A.

YTD 2015 asset acquisitions of \$56.7 million were comprised of royalty assets of \$34.9 million and exploration and evaluation assets of \$21.8 million. The value of assets received in lieu of bonus consideration YTD 2015 was \$15.7 million (2014 - nil).

## LIQUIDITY AND CAPITAL RESOURCES

<i>(\$ millions)</i>	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014
Net Cash From (Used In)				
Operating Activities	\$ 29.5	\$ 27.3	\$ 68.4	\$ 27.3
Investing Activities	(38.0)	-	(41.0)	-
Financing Activities	(40.1)	(0.2)	(88.3)	(0.2)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(48.6)</b>	<b>27.1</b>	<b>(60.9)</b>	<b>27.1</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 2.2</b>	<b>\$ 27.2</b>	<b>\$ 2.2</b>	<b>\$ 27.2</b>

## OPERATING ACTIVITIES

Net cash from operating activities for the three and six months ended June 30, 2015 was \$29.5 million and \$68.4 million, respectively compared to \$27.3 million for the 35 day period ended June 30, 2014. In Q2 2015, the net change in other assets and liabilities was an increase of \$1.0 million, the net change in non-cash working capital was a decrease of \$14.1 million. Q2 2015 cash flow from operating activities was reduced by \$14.9 million due to non-monetary bonus consideration received on transactions during the period. For YTD 2015, the net change in other assets and liabilities was an increase of \$1.8 million and the net change in non-cash working capital was a decrease of \$12.9 million.

The Company had working capital of \$22.6 million as at June 30, 2015. Accounts receivable and accrued revenues consist primarily of trade receivables and accrued revenue 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 June 30, 2015, working capital included cash of \$2.2 million.

## INVESTING ACTIVITIES

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For the three month period ended June 30, 2015, cash used in investing activities was \$38.0 million (2014 - nil) related to the acquisition of royalty and exploration and evaluation assets as outlined in the highlights section of this MD&A.

For the six month period ended June 30, 2015, cash used in investing activities was \$41.0 million (2014 - nil) related to the acquisition of royalty and exploration and evaluation assets as outlined in the highlights section of this MD&A.

## FINANCING ACTIVITIES

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For the three and six months ended June 30, 2015, cash used in financing activities was \$40.1 million and \$88.3 million, respectively related to dividends paid to shareholders. The cash used in financing activities for the period ended June 30, 2014 was \$0.2 million, as the first dividend payment was not made until the third quarter of 2014.

### 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 and six months ended June 30, 2015 were \$0.1 million and \$0.2 million, respectively (2014 - nil). On June 18, 2015, the Credit Facility was extended for an additional one year period to May 29, 2018. As at June 30, 2015, the Credit Facility is undrawn.

### Dividends and Dividend Policy

PrairieSky currently pays a monthly dividend to shareholders at the discretion of the Board. Dividends declared were \$48.6 million or \$0.3250 per share for the second quarter of 2015. On June 16, 2015, the Board declared a dividend of \$0.10833 per Common Share, paid on July 15, 2015, to shareholders of record as at June 30, 2015.

PrairieSky offers a Dividend Reinvestment Plan ("DRIP") and Stock Dividend Plan ("SDP") as optional plans for its shareholders. The DRIP provides the option for Canadian holders of PrairieSky common shares to have their cash dividends reinvested into additional common shares of PrairieSky. The SDP provides the option for shareholders to receive dividends in the form of common shares of PrairieSky in lieu of receiving a cash dividend on the dividend payment date. Under the DRIP and SDP, common shares are issued at a one per cent discount to the prevailing market price with no broker fees or commissions.

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 PrairieSky's 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.

## Outstanding Share Data

As at June 30, 2015, PrairieSky had 149.6 million Common Shares outstanding and 0.8 million outstanding stock options (June 30, 2014 - 0.5 million). As at July 27, 2015, Common Shares outstanding had increased to 156.1 million as a result of the bought deal prospectus offering of common shares that closed July 7, 2015, as well as additional DRIP and SDP shares issued. See the “Highlights” section of this MD&A for additional details.

## 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 expenditure commitments, which enhances its financial flexibility.

The Company’s capital structure is comprised of shareholders’ equity and working capital. The Company’s capital structure is managed by taking into account operating activities, dividends paid to shareholders, taxes, available Credit Facility, share issuance costs and other factors. The Company’s operating results and capital structure are impacted by the level of development activity by third parties on the Royalty Properties and the resultant royalty revenues, 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) (undiscounted)	Expected Future Payments						
	2015	2016	2017	2018	2019	Thereafter	Total
Office lease commitments	\$ 1.3	\$ 1.7	\$ 1.4	\$ 1.4	\$ 1.3	\$ 5.8	\$ 12.9

The Company had two royalty acquisition agreements in place with unrelated parties at June 30, 2015. The agreements expire on December 31, 2016 and August 1, 2017 and result in remaining commitments, subject to numerous conditions, of \$0.2 million and \$3.4 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 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 is 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 June 30, 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 does it provide for any doubtful accounts.

## Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties funding its financial liabilities as they come due. The Company has access to funding alternatives through its Credit Facility. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due. At June 30, 2015 the Company had working capital of \$22.6 million including cash of \$2.2 million.

The Company's sources of liquidity include cash and cash equivalents, working capital funds and its Credit Facility. The primary use of funds is acquisitions, 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](http://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 controls. 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 CFO 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 CFO 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.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO 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 June 30, 2015. This change was made during the three month period ended 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 Share – Basic and Diluted. Management's use of these measures is discussed further below.

"Operating Cash Flow" represents the cash margin for products 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 products 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 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 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.

<i>(\$ millions)</i>	For the three months ended June 30, 2015	\$ per BOE	For the period from May 27, 2014 to June 30, 2014	\$ per BOE
Cash From Operating Activities	\$ 29.5	\$ 18.84	\$ 27.3	\$ 49.84
Add back (deduct):				
Net Change in Non-cash Working Capital	14.1	9.01	3.9	7.13
Financing Costs	-	-	(0.2)	(0.36)
<b>Funds From Operations</b>	<b>\$ 43.6</b>	<b>\$ 27.85</b>	<b>\$ 31.0</b>	<b>\$ 56.61</b>

<i>(\$ millions)</i>	For the six months ended June 30, 2015	\$ per BOE	For the period from May 27, 2014 to June 30, 2014	\$ per BOE
Cash From Operating Activities	\$ 68.4	\$ 21.44	\$ 27.3	\$ 49.84
Add back (deduct):				
Net Change in Non-cash Working Capital	12.9	4.04	3.9	7.13
Financing Costs	-	-	(0.2)	(0.36)
<b>Funds From Operations</b>	<b>\$ 81.3</b>	<b>\$ 25.48</b>	<b>\$ 31.0</b>	<b>\$ 56.61</b>

## FUNDS FROM OPERATIONS PER SHARE CALCULATIONS – BASIC AND DILUTED

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

<i>(\$ millions, except per share data)</i>	Three months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014 <sup>(3)</sup>	Six months ended June 30, 2015	For the period from May 27, 2014 to June 30, 2014 <sup>(4)</sup>
Funds from Operations	\$ 43.6	\$ 31.0	\$ 81.3	\$ 31.0
Number of common shares:				
Common shares outstanding – basic	149.5	47.1	149.4	23.7
Effect of dilutive securities	0.5	0.2	0.4	0.1
Common shares outstanding – diluted	150.0	47.3	149.8	23.8
Funds from Operations per Share				
Basic <sup>(1)</sup>	\$ 0.29	\$ 0.66	\$ 0.54	\$ 1.31
Diluted <sup>(2)</sup>	\$ 0.29	\$ 0.66	\$ 0.54	\$ 1.30

(1) The Funds from Operations per share is calculated using the number of PrairieSky common shares outstanding as at June 30, 2015.

(2) The Funds from Operations per share is calculated using the number of PrairieSky common shares outstanding as at June 30, 2015, giving effect to stock options.

(3) Basic and diluted weighted average common shares are based on the three month period ended June 30, 2014.

(4) Basic and diluted weighted average common shares are based on the six month period ended June 30, 2014.

## ADVISORY

### FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at June 30, 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;
- potential changes to the legislative and regulatory frameworks in the jurisdictions in which the Company carries on a business, including but not limited to potential changes to the royalty framework in Alberta;
- 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

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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

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All information included in this MD&A, and the Interim Condensed 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**

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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](http://www.sedar.com) or PrairieSky's website at [www.prairiesky.com](http://www.prairiesky.com).